(Copies of the ANNUAL INFORMATION FORM, AS WELL AS COPIES OF THE COMPANY’S FINANCIAL STATEMENTS, MAY BE OBTAINED UPON REQUEST FROM THE CORPORATE SECRETARY, THROUGH THE COMPANY’S INTERNET SITE - WWW.FINNING.COM, OR AT WWW.SEDAR.COM)
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In this Annual Information Form, the terms the “Company” and “Corporation” mean Finning International Inc. and “Finning” means Finning International Inc. together with its subsidiaries and operating divisions. All dollar amounts are Canadian dollars unless otherwise indicated. All information in this annual information form is presented as at December 31, 2007 unless otherwise specified herein.

FORWARD LOOKING STATEMENTS

This Annual Information Form and Management’s Discussion and Analysis incorporated by reference hereto, may contain forward-looking statements and information, which reflect the current view of Finning with respect to future events and financial performance. Any such forward-looking statements are subject to risks and uncertainties and Finning’s actual results of operations could differ materially from historical results or current expectations. Except as required by law, Finning assumes no obligation to publicly update or revise its forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied therein do not materialize.

1. CORPORATE STRUCTURE

1.1 Name, Address and Incorporation

Finning was incorporated as Finning Tractor & Equipment Company Limited on January 4, 1933 under the Company Act (British Columbia). On September 2, 1969 the Company became a public corporation. The Company was continued under the Canada Business Corporations Act on October 8, 1986 and changed its name to Finning Ltd. on April 23, 1987 and to Finning International Inc. on April 25, 1997.

Finning International Inc. is a widely held, publicly traded corporation, listed on the Toronto Stock Exchange (symbol FTT). The registered and head office of the Company is located at Suite 1000, Park Place, 666 Burrard Street, Vancouver, British Columbia, V6C 2X8 (telephone (604) 691-6444; fax (604) 691-6440; website: www.finning.com).
1.2 INTERCORPORATE RELATIONSHIPS

The following outlines the Company’s principal operating subsidiaries and divisions and the geographic areas they serve. As at December 31, 2007 there were no other subsidiaries of the Company whose total assets represented more than 10% of the consolidated assets of the Company or whose total revenues for the year then ended represented more than 10% of the consolidated revenue of the Company.

Finning International Inc.

- Canada – Operating Segment
  - Finning (Canada) a division of Finning International Inc., servicing Western Canada with dealer territories in British Columbia, Alberta, the Yukon territory, the Northwest Territories and a portion of Nunavut
  - OEM Remanufacturing Company Inc. a joint venture company, incorporated in Alberta, Canada with 100% of the common shares owned by Finning International Inc.
  - PipeLine Machinery International a Caterpillar dealership servicing the global pipeline construction industry with 25% of the common shares owned by Finning (Canada)

- South America – Operating Segment
  - Finning Argentina S.A. and Finning Soluciones Mineras S.A. both incorporated in Argentina, 100% owned subsidiaries, servicing Argentina
  - Finning Bolivia S.A. incorporated in Bolivia, a 100% owned subsidiary, servicing Bolivia
  - Finning Chile S.A. incorporated in Chile, a 99.99% owned subsidiary, servicing Chile
  - Finning Uruguay S.A. incorporated in Uruguay, a 100% owned subsidiary, servicing Uruguay

- UK Group – Operating Segment
  - Finning (UK) Ltd. incorporated in the United Kingdom, a 100% owned subsidiary, servicing the UK with dealer territories in England, Scotland, Wales, the Falkland Islands and the Channel Islands
  - Hewden Stuart PLC incorporated in the United Kingdom, a 100% owned subsidiary, supplying rental equipment and services in England, Scotland, Wales and Jersey
2. GENERAL DEVELOPMENT OF THE BUSINESS

2.1 OVERVIEW OF OPERATIONS

Finning is a Canadian-based international company which provides sales, rental and customer support services for Caterpillar Inc. (“Caterpillar” or “CAT”) equipment and engines and complementary equipment on three continents. In terms of sales volume, Finning is one of the largest distributors of Caterpillar products in the world and is the authorized dealer of Caterpillar products in its Western Canada territories, the United Kingdom and the southern cone of South America (defined as the countries of Argentina, Bolivia, Chile and Uruguay). Finning has 12,850 employees serving in these dealer territories.

Canada

The Company has been the authorized dealer for Caterpillar products since 1933 in British Columbia and since 1977 in the Yukon Territory. In December 1989, the Company acquired all of the shares of R. Angus Alberta Limited, the Caterpillar dealer for Alberta and a portion of the Northwest Territories. By 1995, additional territory was added to the existing area within the Northwest Territories and Nunavut, making the Company the Caterpillar dealer for an area covering all of the Northwest Territories and the portion of the Territory of Nunavut that is west of 110 degrees west longitude. The Company services its Canadian dealership territory through its division, Finning (Canada).

In 2004, Finning International Inc. made an investment in OEM Remanufacturing Inc. (“OEM”), a component remanufacturing business located in Edmonton, Alberta providing customers with remanufactured components. OEM provides remanufacturing services to Finning (Canada) on parts and components for CAT branded equipment under a long-term contract.

On November 27, 2007 Finning (Canada) announced that it had entered into an agreement to acquire all the issued and outstanding shares of Collicutt Energy Services Ltd. (“Collicutt”). On January 16, 2008, Finning (Canada) completed the purchase of Collicutt, a leading oilfield service company. The acquisition provides Finning (Canada) with the opportunity to expand its capacity of regional branches to enable them to undertake more customer service work, accelerate throughput of new equipment prepared for delivery to customers, and increase the ability to undertake machine overhaul and rebuild work. Finning (Canada) plans to relocate the Edmonton-based new equipment preparation and used parts work to Collicutt’s facilities in Red Deer, Alberta. This heavy equipment centre of excellence will free up capacity and give the Company the opportunity to develop a mining/heavy equipment overhaul rebuild capability in Red Deer.

South America

In August 1993, the Company acquired its first Caterpillar dealership territory in South America through the acquisition of Gildemeister S.A.C., the authorized Caterpillar dealer for Chile (subsequently renamed Finning Chile S.A. in 1997). In January 2003, the Company expanded its Caterpillar dealership territories in South America by becoming the authorized Caterpillar dealer in both Argentina, through the acquisition of Macrosa Del Plata S.A., and Servicios Mineras S.A. (subsequently renamed Finning Argentina S.A. and Finning Soluciones Mineras S.A. respectively in 2005), and in Uruguay through the acquisition of General Machinery Co. S.A. (subsequently renamed Finning Uruguay S.A. in 2005). Later
in April 2003, the Company completed the acquisition of Matreq Ferreyros S.A. (subsequently renamed Finning Bolivia S.A. in 2005), the authorized Caterpillar dealer for Bolivia.

**UK Group**

During the fourth quarter of 2006, Finning implemented a new organizational structure for its operations in the United Kingdom and appointed a new management team responsible for combined operations of Finning (UK) Ltd. (“Finning (UK)”) and Hewden Stuart Plc (“Hewden”), now the Finning UK Group. As part of the restructuring of the Company’s operations in the U.K., Finning divested what it deemed to be non-core businesses. On December 21, 2007, Hewden Stuart announced the sale of its Hoists business to HTC Plant Ltd, part of the PC Harrington Group, which was completed on January 31, 2008. Hewden’s Tool Hire Division was sold in July 2007, and Finning (UK)’s Materials Handling Division was sold in September 2006.

Beginning in 2007, the Finning UK Group is reported as one operating segment, made up of four core market units: Heavy Construction, General Construction, Power Systems, and Rental (Hewden). These four market units will, over time, be supported by an integrated back office operation that will provide common head office services, generating additional synergies in the UK operations.

Prior to 2007, results from the UK Group were reported as two separate operating segments as follows:

**UK**

In 1983, the Company acquired two Caterpillar dealerships in Great Britain. The acquisition of the remaining U.K. dealer, H. Leverton Limited, was completed on October 1, 1997. The Company now operates in the U.K. under the name of Finning (UK), and is an authorized Caterpillar dealer in Great Britain.

**Hewden**


### 2.2 THREE YEAR HISTORY

The following is a summary of significant developments in the strategy of the Company and in each of the Company’s core operating segments over the past three years.

#### 2.2.1 Strategic Plan

During 2006, in order to leverage Finning’s core capabilities and establish a platform for sustainable growth and enhanced business performance, the Company completed an extensive review and update of its strategic plan. The Company’s updated strategic plan, which is intended to guide the business through to the end of 2010, is based on the progress made under previous plans and builds upon the Company’s strengths and vision for enhanced growth and business performance.

Finning is part of Caterpillar’s global dealer network and both Finning and Caterpillar benefit from this strong strategic alliance. The Company’s vision is two-fold: to be Caterpillar’s best global business partner and to provide unrivalled services that earn customer loyalty. In January 2008, the Company celebrated the 75th anniversary of its highly successful partnership with Caterpillar.
The Company’s mission statement to achieve this vision is “Great people. Great solutions. Great results.” Management believes that this mission statement has meaning for all the Company’s stakeholders: investors, employees, customers, and Caterpillar.

To accomplish these goals, the Company has identified three distinct but very interrelated critical success factors:

- **Customer Solutions**: continue development of a customer solutions culture driven by the Company’s core values. Making its customers more successful is a corner stone to this portion of the Company’s strategy. Service excellence and service quality continue to be key areas of focus.
- **People**: attract and retain talented, skillful people who are quality focused, take initiative and solve problems quickly.
- **Information Technology (“IT”)**: continue to develop technology and systems solutions and processes that are user friendly and drive the “best in class” customer solutions.

### 2.2 Current Developments in the Company’s Operating Segments

#### Canada

- In 2004, Finning International Inc. made an investment in OEM, a component remanufacturing business located in Edmonton, Alberta. Construction was completed in 2005 and the business is now fully functional, providing Finning (Canada) and other customers with remanufactured components.

- In 2005, Finning (Canada) was selected by Caterpillar to be one of four Caterpillar dealers to form a new global Caterpillar dealership, PipeLine Machinery International (“PLM”). PLM serves the global pipeline construction industry as the sole supplier of new Caterpillar pipelaying equipment to customers who specialize in constructing large diameter pipeline projects.

- The number of CAT Rental Store locations increased from 25 at the end of 2003 to its current level of 30 locations plus 4 satellite branches.

- In November 2007, Finning (Canada) and Shell Canada completed the termination of their alliance agreement originally signed in June 2003 relating to the distribution of Shell’s lubricant and light oil products.

- In January 2008, Finning (Canada) purchased Collicutt, a leading Canadian oilfield service. The acquisition provides Finning (Canada) with the opportunity to expand its infrastructure and ability to service a growing customer base as well as access to highly skilled and experienced workforce in strategic areas within the Finning dealership territory.

#### South America

- In 2005 and 2006, the Company consolidated its South American operations into a single business operating segment, aligned by core business lines (mining, construction and forestry and power systems). The organizational structure is intended to enhance customer contact, provide improved services to key industries and capture an even larger portion of the product support market.

- In order to meet strong customer service demand and the resultant higher number of service maintenance contracts, over 900 additional revenue-generating technicians and support staff have
been hired in 2007, representing a 20% increase over December 2006 levels. Service delivery is an important line of business in South America, and considerable resources have been spent on recruiting, developing and retaining employees.

- Operations now benefit from a centralized shared services centre in Uruguay which provides back office and call centre services to all of the South American operations. As a result, Finning has been able to improve customer service and marketing and generate synergies from its acquisitions in 2003.

**UK Group**

Execution of Finning’s strategic plans focused on a restructuring of the UK business model resulting in a significant reduction of costs and the divestment of certain non-core businesses: the Hoists business on January 31, 2008, the Tool Hire Division on July 31, 2007 of Hewden, and the Materials Handling Division of Finning (UK) on September 29, 2006. To support the strategic growth of operations within the U.K., the Company implemented a new organizational structure in late 2006 and appointed a new management team. **Finning UK Group** is organized along four core market units: Heavy Construction, General Construction, Power Systems and Rental (Hewden). The four business units will, over time, be supported by an integrated back office operation that will provide common head office services, generating additional synergies among the business units.

**UK dealership (defined as Heavy Construction, General Construction, and Power Systems).**

- To support its effort to grow market share in all sectors and improve profitability in the U.K., Finning (UK) has partnered with Caterpillar in a plan to increase its machine market share in the U.K. and concurrently to improve the profitability of the Company’s dealership. Caterpillar, for its part, has increased focus on providing effective value proposition to the market while Finning (UK) is increasing its focus on excelling at customer support solutions. One example of this commitment is the recent action of the moving centralized service support structure closer to the customer by regionalizing such activities. In addition, Finning has invested in a new General Construction distribution channel as a separate line of business to focus on customers requiring the smaller end of the product line.

- For further information, refer to Section 2.2.3 - Divestitures.

**Hewden rental operations**

- Over the past three years, various initiatives have been undertaken to simplify the organizational structure of the Hewden rental business. These changes will improve financial performance, support operating efficiencies, and will better meet the needs of the core customer base with a streamlined product offering and a more strategically structured distribution channel.

- In July 2007, Hewden implemented a new information system which is expected to enhance the quality of Hewden’s customer services and improve management information while reducing overall transaction costs. The cost to implement the new system was approximately $27.0 million (£13.5 million) and was incurred in the period from 2005 to 2007. Approximately $6.0 million (£2.8 million) of the total costs were expensed and $21.0 million (£10.7 million) were capitalized and will be amortized over a five year period.
General

- To complement the large growth in business experienced by the Company, Finning has undertaken several initiatives designed to improve profit margins and generate significant cost savings throughout all areas of the organization. Finning believes there are substantial benefits to be realized from these initiatives and, therefore, Finning management has made the successful implementation of these initiatives its top priority. For example: In 2004 Finning launched its “60 by 06” cost savings program to generate $60 million in savings. At the end of December 2006 Finning exceeded its goal and generated an estimated annualized savings going forward of $64 million across its global operations through a combination of reducing selling, general and administration costs, debt refinancing, tax initiatives, and working capital improvements.

- Finning initiated a project to assess the Company’s future global IT strategy, which ran through 2007, and resulted in a software selection in late 2007. The project is estimated to cost over $70 million, of which the Company has been committed to pay approximately $26.3 million [over the next two years] for the software licenses and implementation support.

- During 2005, the Company negotiated a global, five year committed revolving credit facility for $800 million with an international syndicate of banks. This credit facility will be a source of financing for all global operations.

- In 2006, the Company utilized funds from the sale of the UK Materials Handling Division to redeem £75 million of the original £200 million Eurobond.

- The Company holds an equity investment in Energyst B.V. (“Energyst”), a rental business that provides Caterpillar power generation solutions throughout Europe. In April 2005, the Company increased its equity interest to 24.4% from 15.2% and further increased its equity interest to 24.85% in 2008 for a total investment of $17.1 million.

- The regular dividend rate has increased several times over the past three years. Dividends paid in 2005 increased 10% over the previous year; in 2006 increased a further 25%, and in 2007 increased a further 31% to a current quarterly dividend of $0.10 per share.

- On May 9, 2007, the Company’s shareholders approved a split of the Company’s outstanding common shares on a two-for-one basis. Each shareholder of record at the close of business on May 30, 2007, received one additional share for every outstanding share held on the record date. All stock-based compensation plans, share, and per-share data have been adjusted to reflect the stock split.

- The Company has an active share repurchase program in effect until March 29, 2008. During 2007, the Company repurchased 3,691,400 common shares at an average price of $27.82 for an aggregate amount of $102.7 million.

- A shareholders' rights plan is in place which is intended to provide all holders of common shares with the opportunity to receive full and fair value for all of their shares in the event a third party attempts to acquire a significant interest in the Company. The Company's dealership agreements with subsidiaries of Caterpillar are fundamental to its business and any change in control of Finning must be approved by Caterpillar.
2. 2.3 Divestitures

Following an extensive strategic review of the Company’s U.K. based business, it was determined that certain operating divisions were no longer core businesses for Finning. On July 31, 2007, the Company sold its Tool Hire Division which resulted in an after-tax gain on disposal of $0.1 million. On September 29, 2006, the Materials Handling Division was sold for an after-tax loss of $32.7 million which included the write off of intangible assets and goodwill associated with the business. As a result of these divestitures, headcount was reduced by approximately 1,200 employees in Hewden, and 1,000 in the Finning (UK).

On December 21, 2007, Hewden Stuart announced the sale of its Hoists business to HTC Plant Ltd, part of the PC Harrington Group, which was completed on January 31, 2008. The sale is smaller in nature than the previous divestitures and is in line with Hewden's stated strategy of increasing its focus on core businesses where it has already built, or intends to build, a market leadership position.

In the first quarter of 2006, OEM sold its railroad and non-Caterpillar engine component remanufacturing business to Caterpillar, resulting in a pre-tax gain of $5.3 million. Caterpillar and OEM initially signed a two-year agreement for OEM to provide remanufacturing services to Caterpillar for these lines of businesses, with minimal impact on reported results thus far. The initial supply agreement expires March 2008.

In March 2005 the Company sold its 36% interest in Maxim Power Corporation as part of a strategy to divest non-core assets, resulting in a $1.8 million pre-tax gain on the sale.

2. 2.4 Growth by Acquisitions

Finning regularly examines opportunities to acquire complementary businesses in regions where it currently operates. Finning also evaluates opportunities to expand into new geographies where both Caterpillar and the Company can benefit from developing market opportunities. Finning generally targets regions where it can provide substantial value to customers through its extensive expertise in its principal markets of mining and quarrying, construction (including pipeline & oil field development), forestry, power generation, and plant hire.

Acquisitions in existing and adjacent territories enable Finning to lever industry expertise in those markets and local knowledge, such as language, regulatory environment and business practices. As an example, following its 1993 acquisition of the Chilean Caterpillar dealership, Finning took advantage of its presence in the southern cone of South America and its strong relationship with Caterpillar to purchase dealerships in the neighbouring countries of Argentina, Bolivia and Uruguay in 2003. By transferring expertise from its Chilean operations to the newly acquired dealerships, Finning was able to significantly improve the financial and operating performance of these dealerships.

In 2004 and 2005, Finning International Inc. invested in a new world-class component remanufacturing centre that was built by OEM and established a 10-year customer services agreement between OEM and Finning (Canada) to remanufacture Caterpillar components. The facility was completed in 2005 and is now fully operational, providing Finning with what management believes is a competitive advantage over other North American equipment distributors.
The CAT Rental segment provides Finning (Canada) with the opportunity to expand its business through start-ups or acquisitions. In September of 2006, CAT Rental Stores acquired Wirtanen Electric Ltd. and expanded its product offering to include temporary power distribution, transformers and instrumentation which complement both existing Finning Power Systems and Cat Rental Store product lines.

In January 2008, Finning (Canada) purchased Collicutt, a leading Canadian oilfield service company. The total value of this transaction is approximately $145 million, and provides Finning (Canada) with the opportunity to expand its capacity of regional branches to enable them to undertake more customer service work, accelerate throughput of new equipment prepared for delivery to customers, and increase the ability to undertake machine overhaul and rebuild work, and gain access to a source of highly skilled workforce. Finning (Canada) plans to relocate the Edmonton-based new equipment preparation and used parts work to Collicutt’s facilities in Red Deer, Alberta. This heavy equipment centre of excellence will free up capacity and give the Company the opportunity to develop a mining/heavy equipment overhaul rebuild capability in Red Deer.

Acquisition growth opportunities also arise in the form of global equity investments in businesses involving Caterpillar products such as the Company’s investment in Energyst (a 24.85% investment in a company offering power generating rental services to international customers across Europe) and in PLM (a 25% investment in a company serving the global pipeline construction industry).

Finning plans to continue to review similar opportunities and will consider additional acquisitions that meet the Company’s economic and strategic criteria.

2. 2.5 Organic Growth Opportunities

Finning has identified a number of organic growth opportunities in each of its existing territories. Management believes that opportunities exist in several different markets, and some of these are the result of Finning’s ability to provide customer solutions. As the size of the Caterpillar fleet in Finning’s geographic regions grows, a larger opportunity arises for the Company’s business to be driven by more stable, higher-margin parts and service revenue. This revenue stream is less sensitive to changes in commodity prices and in some instances is countercyclical as equipment owners will keep their equipment longer in less buoyant economic times and as a result, require more parts and service on the older equipment. Customer support solutions such as long-term service contracts offer an important organic growth opportunity for the Company.
Canada:

The outlook for growth in Canada is promising, reflecting current strong commodity prices, significant development in the Alberta oil sands, associated pipeline projects in Western Canada, mining projects, as well as large infrastructure projects both in Alberta and British Columbia. Finning (Canada) is well positioned to compete for this business, which includes both product sales and customer support services.

Finning expects that new infrastructure projects scheduled in Alberta and British Columbia over the next few years, including those anticipated in connection with the 2010 Winter Olympics in Vancouver will provide additional opportunities to increase revenues.

Global energy demand is expected to drive an increase in worldwide pipeline construction activity in the future and Finning’s interest in PLM provides an opportunity to participate in this growth. In 2007, Finning’s proportionate share of revenues from PLM, of $84 million, increased by 93% over 2006. International activity for PLM has included significant headway into the China market with over 75 new pipelayers sold over the past 15 months. PLM is also selling to pipeline customers constructing in Russia as well as ongoing focus on sales in South America, Europe, Africa, and India as well as Australia and Malaysia.

South America:

The strength in commodity prices for copper and gold indicates continued growth in demand for products and services for the Company’s resource-based customers. Continued strength in mining activity, and related infrastructure projects in South America should provide Finning with an opportunity to increase its revenues both from equipment sales and customer support services over a long-term period. Over the past few years Finning has experienced significant growth in its maintenance support agreements supplied to major mining customers in the South America territories in which Finning conducts business. As a result of this growth, the Company has invested heavily in the hiring and training of technicians to better position itself for sustaining this growth opportunity. Finning is experiencing strong demand for energy solutions in South America, which presents a growth opportunity with Caterpillar products in all four countries, where Finning can lever its expertise with finished products and services.

UK Group:

The U.K. has experienced modest growth opportunities in coal mining and quarrying, with the majority of its market primarily driven by construction activities, due to infrastructure spend and house building. Competitive pressures continue to impact the Company’s operations in the U.K., which have led to a realignment of the U.K. business model and actions will continue to be taken to reduce the cost base and improve operating results.

Finning’s new organizational structure in the U.K. with four core market units, being Heavy Construction, General Construction, Power and Energy Systems, and Rental (Hewden) is expected to enhance the ability of the operations to meet customer demands, empower employees and improve operational performance. These changes better align and focus the UK dealership with Caterpillar and increase our ability to offer tailored solutions to both large machine and small machine customers. Finning (UK), through the General Construction channel, will focus on customers that require small and compact machines which Caterpillar produces. Caterpillar is committed to producing competitive products that will
enable further market penetration in this sizeable market. UK management continues its efforts to improve margins in all areas, containing and controlling costs and growing the customer support business.

During 2007, management focused on the disposition of Hewden’s Tool Hire Division and implementation of a new information technology system for Hewden’s continuing operations. As this new system improves processes, and Hewden’s core business product line becomes fully embedded in rental operations, management expects that utilization, price realization, and operating results will improve.

3. DESCRIPTION OF FINNING’S BUSINESS

3.1 PRINCIPAL BUSINESS UNITS

Finning has diversified its business through operating segments in different geographical areas, through different lines of business based on the product or service supplied and through different end use customers or markets. As a result of this diversification, earnings and cash flow are more stable and predictable. The table below provides details of revenue by operating segment and lines of business for continuing operations:

<table>
<thead>
<tr>
<th>For year ended December 31, 2007 ($ millions)</th>
<th>Canada</th>
<th>South America</th>
<th>UK Group</th>
<th>Consolidated</th>
</tr>
</thead>
<tbody>
<tr>
<td>New mobile equipment</td>
<td>$1,253.2</td>
<td>$574.4</td>
<td>$405.9</td>
<td>$2,233.5</td>
</tr>
<tr>
<td>Customer support services</td>
<td>$905.8</td>
<td>$550.3</td>
<td>$245.1</td>
<td>$1,701.2</td>
</tr>
<tr>
<td>Equipment rental</td>
<td>$290.1</td>
<td>$46.6</td>
<td>$444.5</td>
<td>$781.2</td>
</tr>
<tr>
<td>New power &amp; energy systems</td>
<td>$194.9</td>
<td>$108.7</td>
<td>199.4</td>
<td>$503.0</td>
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<tr>
<td>Used equipment</td>
<td>$269.3</td>
<td>$42.8</td>
<td>$105.5</td>
<td>$417.6</td>
</tr>
<tr>
<td>Other</td>
<td>$22.9</td>
<td>$2.8</td>
<td>-</td>
<td>$25.7</td>
</tr>
<tr>
<td>Total</td>
<td>$2,936.2</td>
<td>$1,325.6</td>
<td>$1,400.4</td>
<td>$5,662.2</td>
</tr>
</tbody>
</table>

Revenue percentage by operations 51.9% 23.4% 24.7% 100.0%

Prior to 2007, Finning operated through four principal operating segments with the UK Group reported as two operating segments:

- **Canada**: Revenue from the Canadian segment was $2,936.2 million in 2007 compared with $2,612.6 million in 2006. Finning (Canada) serves customers operating in a number of principal markets including mining, forestry, construction, pipeline/oil field development, and government.

- **South America**: Revenue from the South American operating segment was $1,325.6 million (US$1,240.3 million) in 2007 compared with $1,009.9 million (US$890.4 million) in 2006. Finning (South America) serves customers operating in a number of principal markets including mining, energy, construction, and forestry.

- **UK Group**: Revenue from the UK Group operating segment was $1,400.4 million (£654.7 million) in 2007 compared with $1,230.7 million (£589.0 million) in 2006. Finning (UK) serves customers operating in several principal markets which include mining and quarrying,
construction and plant hire. Finning (UK) also serves other specialized markets such as demolition, waste management, landfill, and paving equipment. Hewden principally provides plant type products and services to customers operating in a number of markets including construction, civil engineering, petro-chemical, manufacturing, telecommunications and other industries.

The total business revenues contributed by the Company’s Finning Power Systems Division (‘Power Systems’) are locally managed and reported within the country operation in which the revenues are generated and as such, are not disclosed separately in the consolidated financial statements. The Power Systems Divisions of the Company operate in each of its dealer territories and sells, rents, and services engines and power generation products manufactured by Caterpillar and its subsidiaries. Finning Power Systems maximizes global engine sales and service opportunities in this fast-growing segment of Caterpillar’s business. Power Systems also provides value-added solutions in the energy, marine and industrial markets.

3.2 PRODUCTS & SERVICES

Finning dealership operations, namely Canada, South America, and UK, offer products and services through five principal lines of business: New mobile equipment sales, customer support services, equipment rental, new power & energy systems sales, and used equipment sales. Hewden’s principal line of business is equipment rental. The following table summarizes the Company’s revenue from continuing operations by principal lines of business:

**REVENUE BY PRINCIPAL LINES OF BUSINESS**

**Revenues from Continuing Operations:**

<table>
<thead>
<tr>
<th>($ MILLIONS)</th>
<th>2007</th>
<th>2006</th>
<th>CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>New mobile equipment sales</td>
<td>$ 2,233.5</td>
<td>39.4%</td>
<td>$ 1,732.8</td>
</tr>
<tr>
<td>Customer support services</td>
<td>1,701.2</td>
<td>30.0%</td>
<td>1,583.5</td>
</tr>
<tr>
<td>Equipment rental</td>
<td>781.2</td>
<td>13.8%</td>
<td>693.2</td>
</tr>
<tr>
<td>New power &amp; energy systems</td>
<td>503.0</td>
<td>8.9%</td>
<td>419.9</td>
</tr>
<tr>
<td>Used equipment</td>
<td>417.6</td>
<td>7.4%</td>
<td>401.1</td>
</tr>
<tr>
<td>Other</td>
<td>25.7</td>
<td>0.5%</td>
<td>22.7</td>
</tr>
<tr>
<td></td>
<td>$ 5,662.2</td>
<td>100.0%</td>
<td>$ 4,853.2</td>
</tr>
</tbody>
</table>

Below is a brief description of the Company’s products and services offered through the principal lines of business:

3.2.1 New Mobile Equipment

Finning distributes Caterpillar products, including tractors, loaders, log loaders, tree harvesters, skidders, off-highway trucks, backhoe loaders, excavators, articulated trucks, motor graders, paving products, compactors, wheel tractor-scrapers and pipe layers.
3. 2.2 Customer Support Services

Finning provides replacement parts and repair services for the products it sells. Finning believes that a high level of customer service is essential to its success. A continuing emphasis on customer support promotes customized solutions to customers’ needs. These solutions are often provided under long-term contracts entered into at the time the equipment is sold and, as such, increase the stability and predictability of Finning’s future revenues and cash flow. Finning maintains parts inventory at over 100 locations, in Western Canada, South America, and the U.K. to provide customers with convenient access to a supply of parts. All major Finning dealership centres within each geographic area are connected through computer systems, which provide immediate information on both Finning and Caterpillar parts inventories.

Over half of the employees and facilities in the dealership operations are dedicated to customer support services. Finning employs approximately 2,300 qualified mechanics, welders, technicians, parts persons and other specialized tradespersons in Canada; approximately 700 in the U.K.; and approximately 2,800 in South America.

In addition to the in-shop capability at Finning locations, Finning provides service at customer locations with specialized personnel and equipment. Many of Finning’s customer sites are located at very high altitudes or experience severe climatic conditions. Finning has consistently demonstrated its ability to successfully maintain and service equipment under these conditions, enhancing its reputation as a full service provider to its customers. Finning offers its customers maintenance and repair contracts for preventive maintenance, planned component replacement and guaranteed cost per hour contracts.

To meet the continuing demand for component replacement arising from the modular design of Caterpillar’s products, Finning extensively uses remanufactured components sourced from Caterpillar. In addition, Finning has invested in centralized component remanufacture centres in Edmonton, Alberta; in Leeds, England; in Antofagasta, Chile; and in Buenos Aires, Argentina. Trained technicians dismantle, test, repair and replace worn components. This centralization, through specialization and volume, creates economies of scale, resulting in lower prices for customers. The remanufactured components are used in repairs and in an exchange program whereby the customer replaces a worn component with a repaired or remanufactured component at specified intervals before failure, maximizing machine availability at an attractive cost compared to new replacement components.

3. 2.3 Equipment Rental

Finning owns fleets of equipment for short-term rental (Hewden and Cat Rental Stores) and long-term rental to meet customer needs. Finning also offers equipment under a Rental Purchase Option (“RPO”). These are term rental agreements with customers that include an option to purchase the equipment. Rental agreements range from short-term arrangements which provide customers with the flexibility to utilize reliable equipment on a “needs-only” basis, to longer term arrangements which provide customers with the ability to effectively outsource their need to have reliable equipment available at all times.

The equipment rental business offers Finning enhanced stability and predictability in revenues and cash flow. During peak periods, the rental fleet can be used to satisfy heavy customer demand, particularly during periods of longer lead times for product supply. When commodity markets are weaker, customers may use the rental fleets to defer capital expenditures on equipment fleets. Hewden and CAT Rental Stores
focus on the smaller end of the product range. Revenues in these rental businesses are driven more by
general economic conditions than by the cyclicality of the commodity markets.

Canada: maintains a rental fleet consisting of Caterpillar earthmoving equipment for the mining,
construction and forestry industries as well as some forestry equipment. Also included in the fleet
are power systems for electrical generation. Finning (Canada) also provides a full line of products
from hand tools to smaller Caterpillar products (generally less than 120 horsepower) through its
network of 30 CAT Rental Store locations and 4 satellite locations.

South America: maintains a rental fleet consisting of large mining vehicles, motor graders,
compactors, excavators, backhoe loaders, tractors, compressors, power generators, lift and light
towers. The rental business mainly serves customers in the construction and mining industries.
Tractors, rented by construction companies who are involved in highway construction and pre-
mining activities, dominate the fleet. The South American operations also offer the smaller
Caterpillar products through their twelve CAT Rental Stores, an area of growth in South America.

UK Group:

UK Dealership: maintains fleets of rental equipment mainly consisting of backhoe loaders,
hydraulic excavators, articulated and rigid dump trucks, telescopic handlers, and rollers. Customers
served include construction and mining companies. Rental of the smaller unit Caterpillar products
is further complemented by Finning’s General Construction distribution channel.

Hewden: has a large number of rental equipment locations in the U.K. (133 depots in 102 locations)
Hewden provides a comprehensive product line of smaller Caterpillar products complemented by
non-Caterpillar products including powered access, mobile cranes, modular accommodation, power
and systems, and industrial services.

3.2.4 New Power and Energy

Finning’s Power Systems division distributes engines and engine packages for use in oil and gas,
electric power, marine, on-highway trucks and industrial applications. The Company distributes other
Caterpillar brands, including engines branded as MaK and Perkins. In South America, Caterpillar
generators branded as F.G. Wilson are also distributed.

Finning modifies and adapts the products it sells to meet the special application needs of its
customers and to pursue new market opportunities.

3.2.5 Used Equipment

In addition to sales of new equipment, Finning buys and sells used equipment domestically and
internationally. Machines are accepted in trade, received from the rental fleet, returned from lease and
purchased from customers and others on the open market. Most of this equipment is reconditioned in
Finning’s service shops and resold under a short-term warranty program. Finning also purchases and sells
entire fleets of used equipment and sells used equipment on consignment. Used equipment demand will
vary depending on product availability, customer buying preferences, and exchange rate considerations.
The used equipment business is generally focused on the products and types of equipment for which
Finning is a dealer. Finning has developed expertise in the used equipment market which has earned
Finning a reputation as one of the world’s largest used equipment dealers. It also enables the Company to
earn an attractive margin on the dispositions from its rental fleet.
3. 2.6 Other Products & Services

Other products and services revenues include revenues generated by providing financing and operating leases to customers and providing insurance coverage. In previous years, Finning (Canada) extended financing to its customers through leases and select conditional sales contracts. In 2004, the Company sold the majority of its outstanding finance portfolio to Caterpillar Financial Services Ltd. (“CFSL”) and, as a result, revenues from this business have since been minimal. Despite the smaller finance portfolio that has been retained, Finning (Canada) continues to maintain a high level of service to its customers by working in conjunction with CFSL (and other financial institutions) for their customers’ financing needs.

Finning (Canada) operates a licensed insurance agency, with licensed brokers located in Surrey, Williams Lake and Edmonton, to provide various commercial insurance products to its customers. Types of insurance offered include but are not limited to the following: Physical Damage Insurance for equipment, Commercial General Liability Insurance, Cargo Insurance, Auto Fleet Insurance (Alberta), Construction Bonding, and Marine.

Customer financing of equipment from Finning (UK) is provided by Caterpillar Financial Services (UK) Limited and other external finance companies. In South America, the majority of the equipment financing is provided by Caterpillar Leasing Company, although external finance companies, mainly local banks, also provide financing to customers.

3.3 Principal Markets

Finning serves customers operating in a diverse range of end markets, including those involved in mining and quarrying, construction (including pipeline and oil field development), forestry, power generation, agriculture, and plant hire. Customers include private enterprise and government. Finning has established industry and product specialists for the major markets in the geographic regions in which they operate.

Canada

Finning’s Canadian operations are based in British Columbia, the Yukon territory, Alberta, the Northwest Territories and a portion of Nunavut. In these regions, Finning (Canada) serves diverse markets, including mining, forestry, construction, pipeline/oil field construction, government sector, marine transportation, fisheries, and commercial transport. The most significant markets served by Finning (Canada) are as follows:

Mining Industry: provides products and services for use in the mining of coal, copper, molybdenum, gold, diamonds, silver, lead, zinc and other metals and minerals as well as the development of the Alberta oil sands. Most of the mining is done by the open pit method that lends itself to the application of large off-highway trucks, shovels, tractors, loaders and graders. Operations in remote areas also require electric power generation sets. High hour usage of equipment creates substantial demand for parts and repair services from this market sector.

Construction Industry: provides products and services for use in the building and maintenance of highways, railway extensions, site development, residential and commercial construction, installation of utility services, and similar projects.
Pipeline/Oil Field Development Industry: provides products and services including mobile
earthmoving equipment for use in exploration and drill site preparation; excavators and pipe layers
for use in gathering and delivery systems; diesel and natural gas engines in the operation of drill
rigs, pumps and compressors; and electric sets for camp power generation. In addition to its
Western Canadian market exposure, through its 25% investment in PLM, Finning (Canada) has
access to supply both purpose built pipeline and traditional Caterpillar products to the global
pipeline construction market.

Forestry Industry: provides products and services for use in road building, harvesting and
processing trees, silviculture, log transport to mills, and the handling of logs, lumber and finished
products in mill yards.

South America

Finning’s South American operations serve diverse markets in Chile, Argentina, Uruguay and
Bolivia including mining, construction, forestry, oil and gas, marine and electric power generation, the most
significant of which are:

Mining: provides products and services to large open pit copper and gold mines. These mine sites
require fleets of off-highway trucks, loaders, tractors and other support equipment and often include
long-term agreements for maintenance of the equipment.

Construction: provides products and services to the construction industry involving road
construction and maintenance projects, and other infrastructure projects as well as residential and
commercial construction.

Forestry: provides products and services in the southern half of Chile, the northeast of Argentina
and in Uruguay required for road building, logging, log transportation, and the handling of logs,
lumber and finished products in yards and mills and at port facilities.

UK Group

Finning’s operations in the UK also serve diverse markets, with the principal contributors to
revenue being the mining and quarrying, construction, and plant hire industries.

Mining and Quarrying Industry: provides products and services for use in open pit coal mining and
reclamation of open pit mine sites, quarrying of limestone, granite and clay, and extraction of sand
and gravel.

Construction Industry: provides products and services for use in highway construction and
maintenance, residential and industrial development, and the installation of sewer, water and other
utility services. Backhoe loaders, hydraulic excavators and articulated dump trucks are the most
common types of Caterpillar machines for these applications.

Plant Hire: provides equipment to the plant hire industry which involves customers who buy
equipment and then rent that equipment to others, with or without operating personnel. The
equipment is used for construction, mining and quarrying, agriculture and other types of work.
Hewden’s operations serve a variety of customers in industries such as general construction, civil engineering, petro-chemical, telecommunications, utilities, manufacturing and events management. The core customer base of Hewden is in the construction industry. Hewden provides products and a variety of services for use in building maintenance and repair of primary infrastructure including hospitals, schools, highways and building projects.

Power Systems

Finning Power Systems delivers comprehensive power solutions to customers utilizing products manufactured by Caterpillar and its subsidiaries, including Perkins, MaK and F.G. Wilson to customers in the energy, marine, petroleum and industrial sectors.

Canada:

Power Systems experienced modest growth in 2007 in the Alberta energy industry primarily due to the slowdown in natural gas drilling activity. Throughout Finning (Canada)’s territory, projects related to electrical prime power generation in remote locations, local specialized electric power projects, and electrical power rental opportunities, provided stable growth for this business segment. Product support sales also grew in all industries in 2007, with notable increases in parts and service volumes associated with the gas compression business.

Equipment management contracts and product support continues to represent significant growth opportunities for Power Systems. Finning (Canada) continues to place a strong focus on providing customer support solutions to end-users including gas compression manufacturers, producers of electrical power, and the on-highway truck dealers in order to increase customer satisfaction and provide sustainable growth to the business.

South America:

Power Systems provides primary, stand by or customized turnkey power solutions to customers engaged in various markets from mining to general construction including non-traditional Finning markets, such as oil & gas, telecommunications and utilities. In addition, Finning provides marine propulsion systems to the fishing industry and the Chilean Navy. The Company also operates in Chile and Argentina, through its subsidiary Diperk, which distributes Perkins engines and F.G. Wilson generator sets to a wide variety of industrial and marine customers.

UK:

In 2007, Power Systems enjoyed strong growth in both the Pleasurecraft marine industry (which purchases engines for vessels manufactured in the U.K. and sold around the world) and Industrial sectors within the UK. Additional opportunities exist in the oil and gas sector, landfill gas industry for power generation and the military and commercial ferry industries, which require large power generation equipment. Through its subsidiary, Diperk (UK) Ltd., Finning distributes Perkins engines to a number of dealers and end use customers throughout the U.K.
Other:

Energyst was formed in Europe in 2003 by Caterpillar, Finning and nine European Caterpillar dealers, and provides the rental of Caterpillar power generation solutions throughout Europe. Through this investment, the Company’s power rental business scope has expanded from the U.K. to continental Europe.

3.4 DISTRIBUTION METHODS

Finning’s dealerships operate through an extensive network of: (a) branches, which have sales, parts and repair services; (b) depots, which have repair facilities and limited, fast-moving parts inventories; and (c) residences, where one or more field service representatives provide customer support services in communities not otherwise serviced by branches or depots. The Finning dealership operations are represented across their dealer territories by approximately 100 locations, of which approximately 20% are owned, with the balance held under lease.

The Company places a strong focus on providing customer support solutions to end-users. An efficient parts distribution network assists in achieving this objective. The distribution network operated by each dealership operating segment can be summarized as follows:

Canada:

During 2005 the primary parts distribution centre in Edmonton was outsourced to Tracker Logistics, an unrelated company, in Nisku, Alberta and a wholly owned subsidiary of Excel Logistics Inc. The outsourcing and transition to Tracker Logistics was completed in 2006. Under an arrangement with an independent contractor, a fleet of dedicated trucks and trailers makes daily deliveries of new and remanufactured parts, components, attachments and small equipment to Finning (Canada)’s major locations. The routes run from the Tracker Logistics warehouse in Nisku, Alberta; from Caterpillar’s parts warehouses in Denver, Colorado and Spokane, Washington; and from various branch locations to other branches throughout the territory.

The performance of Tracker Logistics as a supplier to Finning (Canada) has shown continuous improvement with each year of operation. Key benchmarks used by Finning (Canada) to assess the Tracker operation have been exceeded and therefore have assisted Finning (Canada) to improve overall service to its customers and branches.

South America:

Parts are primarily sourced from the Caterpillar parts distribution centres in Miami, Florida and Piracicaba, Brazil. Parts order shipments from Caterpillar are shipped by ocean and air to Finning parts distribution centres in Antofagasta, Chile and Buenos Aires, Argentina and warehouses in Santa Cruz and LaPaz, Bolivia and Montevideo, Uruguay. Through independent sub-contractors, a dedicated fleet of trucks makes daily deliveries of new parts and remanufactured components to all branches.

UK Group:

Parts are sourced from the Caterpillar parts distribution centre in Grimbergen, Belgium. These parts are then redistributed to UK dealership branches either directly by trucks enroute from Grimbergen, or by the dealership’s interbranch transport network and an independent contractor.
The Hewden rental business operates through an extensive network of 133 depots throughout the U.K and is represented in 102 locations. Each depot varies in size and product offering with some large multi-discipline depots offering a broad range of equipment for hire, from mobile cranes to small plant. Hewden owns approximately 55% of its properties. In late December 2007 following the sale of Hewden’s Tools business to Speedy Hire plc (Speedy), in July 2007, Speedy exercised its option to purchase 65 ex-Tools properties from Hewden. It is estimated that the sale of properties will complete by the end of 2008.

3.5 Employee Development

Finning employs highly qualified and professional individuals and encourages training and career development for all of its employees. Approximately 55% of Finning’s total employees from dealership operations are skilled mechanics, technicians, parts persons and apprentices. To enhance skill levels and expertise, the Company offers the following:

- Finning dealership operations, in partnership with Caterpillar, support Caterpillar’s ThinkBIG equipment technician program. In this program, Finning and Caterpillar combine to provide tools, instructors and machinery, and provide job opportunities to graduates. The Finning UK group is a leader in technician development in its sector and is the first European dealer to deploy Caterpillar’s ThinkBIG in-house apprentice development program.

- Formalized sales and operations intern programs to provide learning and development opportunities in the sales and operations areas of the Company in Canada. South America has launched an innovative program called “Finning University” which defines career progression opportunities in service, sales, parts & logistics among others. Finning UK Group remains committed to the development and external accreditation of the sales force and technicians through the adoption of the CAT Sales Effectiveness program, and the CAT accredited Technician Career Development program to be deployed in 2008.

- Structured programmes for management are currently in place with a focus on leadership development. Supervisor and management leadership development programs are offered to supervisors, new management and existing management of all levels with the emphasis on employee development to meet current and future business needs. To support employees in leadership roles they are promoted with the appropriate tools and training to deliver ongoing coaching and leadership to have an engaged and skilled pool of employees, who are well prepared to meet our business needs.

Finning believes that employee engagement forms an integral part of achieving the Company’s strategic goals. Employee opinion surveys, an employee performance appraisal system, and career development planning are used to assess the level of employee engagement.
3.6 EMPLOYEE RELATIONS

Finning had 12,850 employees at the end of 2007: 4,300 in Finning (Canada); 350 in OEM; 4,600 in South America; 3,550 Finning UK Group, and 50 at corporate headquarters.

At Finning (Canada), the International Association of Machinists and Aerospace Workers (“IAM”) represents hourly paid parts and service employees in British Columbia and the Yukon Territory. In its history, Finning (Canada) has never experienced a work stoppage in British Columbia or the Yukon Territory. In 2006, a three-year collective agreement was negotiated with the BC/Yukon local, which will expire on April 14, 2009.

A separate local of the IAM represents hourly paid parts and service employees in Alberta and the Northwest Territories. Finning (Canada)’s current three-year collective bargaining agreement with this local of the IAM signed in Dec 2005, after a six week labour strike, was to expire on April 30, 2008. In the second quarter of 2007, Finning (Canada) and the IAM, agreed to a two year extension of the existing collective agreement with an enhanced wage settlement. This extends the agreement to April 2010. All other terms and conditions of the existing collective agreement continue in effect.

OEM employees are represented by the Transport Warehousemen and Allied Trades (CLAC Local 56), which is affiliated with the Christian Labour Association of Canada. The current collective agreement for OEM employees will expire on March 31, 2009.

Finning, Finning (Canada), and OEM have been involved in legal proceedings for the past three years with the Alberta division of the International Association of Machinists and Aerospace Workers – Local Lodge 99 (IAM) relating to Finning (Canada)’s outsourcing of component repair and rebuilding services to OEM in 2005. On October 17, 2007, the Alberta Court of Appeal overturned previous decisions in favour of Finning and OEM made by the Court of Queens Bench and by a Reconsideration Panel of the Alberta Labour Relations Board (ALRB), and reinstated a finding of the original ALRB panel. The original ALRB panel had found that OEM was a successor employer to Finning (Canada) in respect of the component repair and rebuilding activities being carried out by OEM as a service provider to Finning (Canada). The result of the Court of Appeal finding is that IAM may now have the right to assert that it is the authorized bargaining agent for some or all of the non-management employees of OEM. These OEM employees are currently represented by another union, the Christian Labour Association of Canada. The Court of Appeal did not overturn other aspects of the previous decisions in Finning's and OEM's favour and the full operational and legal implications of the Court's decision are still to be determined by the ALRB. At this time, Finning and OEM are confident that they can manage the operational impacts of this recent Court decision. Meanwhile, Finning, Finning (Canada), and OEM filed for leave to appeal this decision to the Supreme Court of Canada. The timing of the appeal, if allowed, is not yet known.

There are six unions (sindicatos) that represent the Company’s employees in Chile. Historically, the relationship between the Company and the unions has been positive. The collective agreement with the three unions that represent 80% of the Chilean employees will expire in November 2008. The collective agreement with the Cat Rental Store employees will expire in June 2008. In November 2006, Finning Servicios Especializados (Machine Shop) in Antofagasta negotiated successfully a collective agreement with the FSE union; the agreement will expire November 2010. In March 2007, Diperk negotiated successfully a collective agreement with the Diperk union; the agreement will expire February 2011.
A national union represents Finning mechanics in Argentina pursuant to a country wide agreement. This national agreement was signed in 1975 with no end date. A good working relationship with this union is maintained with both Finning Argentina S.A. and Finning Soluciones Mineras S.A. In 2007, wage increases of 19% were awarded to all employees in Argentina and 10% in Uruguay in accordance with national agreements. The Company also awarded employees in Bolivia a 5% increase to match inflation.

At Finning (UK), there have been no serious labour disruptions since the business was acquired in 1983. The collective agreement covering Finning (UK)’s service employees expired on December 31, 2006 and in January 2007, a new two-year deal, expiring December 31, 2008, was reached.

The only section of the Hewden rental business covered by trade union representation for the purposes of collective bargaining is the Cranes Division. Crane operators in the Cranes division (approximately 250 employees) are covered by a labour agreement with the Amicus trade union. Since the Company’s purchase of Hewden no labour disruptions have taken place. The current agreement expired on February 1, 2008. While discussions are continuing, there remains some risk of industrial action by this group of employees in 2008. Due to the number of employees covered by this agreement and the size of the business involved, management does not believe this risk could materially impact the Company’s financial results.

3.7 COMPETITIVE CONDITIONS

Finning is part of Caterpillar’s global dealer network. This network allows users of Caterpillar products and services in specific markets to deal with people with whom they are familiar, and who have an intimate knowledge of the local market and the Caterpillar product. As such, both Finning and Caterpillar benefit from their strong strategic alliance.

Finning primarily competes with a large number of worldwide equipment vendors who sell equipment manufactured by companies other than Caterpillar. The competitive environment for Caterpillar’s machinery and engine business consists of global, regional and specialized local competition. Historically, superior product quality, wide scale service capability, remanufactured components and customization, distribution capabilities, the number of locations, proximity of locations to customers, financial services and the wide product range offered by Caterpillar have enhanced Finning’s ability to compete throughout its market areas.

Caterpillar manufactures a broad range of products. In addition, Caterpillar has expanded its product line through the distribution of products manufactured by other companies and distributed under the Caterpillar brand name. Caterpillar’s competitors generally provide a more limited range of products, and in many cases these are specific to particular industries and to applications within particular industries. Most of Finning’s competitors, worldwide, also specialize in more limited and specific lines of equipment and services. Consequently, Finning’s share of industry-wide sales varies significantly across product lines and industries.

The rental market in the United Kingdom is quite fragmented. As a result, Hewden has a wide variety of competitors throughout its territory but most of these competitors are significantly smaller, both in terms of geographic coverage and product offering.
3.8 DEALERSHIP AND DISTRIBUTOR AGREEMENTS

Finning has dealership and distributor agreements with several equipment manufacturers and distributors, the most significant being Caterpillar. Under the terms of these agreements, Finning is responsible for marketing and servicing the manufacturer’s products in its areas of primary responsibility.

Finning has several dealership agreements with Caterpillar, including companies owned by Caterpillar such as Perkins, MaK and F.G Wilson. The principal agreements can be terminated on 90 days notice in Canada and South America and six months notice in the U.K. Other agreements can be terminated on three to six months notice. In the event of termination of an agreement by Caterpillar, Caterpillar will purchase substantially all related inventories of new equipment and new parts inventory from Finning at cost. Finning started as a Caterpillar dealer in 1933 and has developed a strong relationship with Caterpillar. Finning’s management is not aware of any matter that could result in termination of any of the dealership agreements with Caterpillar.

Over 90% of Finning’s dealership business involves Caterpillar products. As such, Finning’s business is dependent on the market acceptance of Caterpillar products. From time to time, during periods of intense demand, Caterpillar finds it necessary to allocate its supply of particular products among its dealers. Such allocations of supply have not in the past proven to be a significant impediment to Finning in conducting its business.

In addition, to Caterpillar dealer relationships and dealer relationships with companies owned directly by Caterpillar such as Perkins, MaK and F.G.Wilson, the Company has developed dealer relationships for other complementary product lines in order to create new marketing opportunities and to expand its customer support services. In Canada, relationships exist with Waratah, Risley, and Allied Systems in Forestry; Claas, and Agco in Agriculture; and others such as Kress. In South America, dealer relationships exist with Atlas Copco drills, Genie Industries IMT, Link Belt and O&K.

3.9 INTANGIBLE PROPERTIES (GOODWILL)

As at December 31 2007, Finning’s goodwill had a net book value of approximately $250 million. Goodwill represents the excess of cost of an acquired business over the fair value attributed to the net identifiable assets. A significant portion of goodwill recorded on the consolidated balance sheet relates to the Company’s investment in Hewden Stuart plc, acquired in 2001. The Company performs impairment tests on its goodwill balances on at least an annual basis or as warranted by events or circumstances throughout the year. During the year, the Company performed its assessment of goodwill by estimating the fair value of operations to which the goodwill relates using the present value of expected discounted future cash flows, which resulted in no impairment of goodwill in 2007.

3.10 BUSINESS CYCLES

Many of the Company’s customers operate in industries that are cyclical in nature. As a result, customer demand for the Company’s products and services may be affected by economic conditions on both a global or local level. Changes in interest rates, inflation, economic growth, levels of taxation, foreign exchange, commodity prices, and the level of government infrastructure spending may influence capital expenditure decisions, and ultimately the Company’s sales. Through diversification by geography and by the services offered by the Company, Finning mitigates any significant cyclical impact.
3.11 BUSINESS PROCESSES & SYSTEMS

The Finning dealership operations (which exclude Hewden) utilize computer systems supplied by Caterpillar. Caterpillar provides its dealers with software to manage parts, service and product support, finance, sales and merchandising, and marketing. The Caterpillar core dealer based system (DBS) was further enhanced with a commercial software solution that provides a standardized, internet-enabled framework and supports common dealer business practices and processes. The revised “DBSi” application was created to address several tactical areas in the enterprise supply chain and to provide integrated financial software, and improved customer relationship management and service. DBS and DBSi are used by a large majority of Caterpillar’s dealers throughout the world, along with a variety of other personal computer-based Caterpillar software applications that expand and support DBS and DBSi.

Finning’s dealership operations in Canada, Chile, Uruguay and Bolivia continue to run the previous DBS version of Caterpillar software, while DBSi is being used in the dealership operations in the UK (since 2004) and Argentina (since 2003). Finning’s DBSi computer systems are supported by the Caterpillar Solution Centre located in Peoria, Illinois.

In the latter part of 2005, Caterpillar announced a change of direction with respect to its dealer applications software. Caterpillar is moving to a single software product offering for dealers, referred to as DBSi v5, and is targeting to have it implemented in all DBSi dealerships by 2009. As such, Finning initiated a project to evaluate future Caterpillar software products, as well as alternative commercial offerings that will support the Company’s strategic goals of “best in class” customer solutions. This project ran through 2007, and resulted in the selection of the Lawson M3 solution in late 2007. A project has been approved and is being initiated to implement the M3 solution in all Finning dealership operations, commencing in early 2008. Implementation is expected to run through 2008 and 2009.

Hewden implemented the Lawson M3 solution for its rental operations in 2007, replacing legacy software systems and IT processes. This new system is designed to improve customer information and also enable Hewden to focus on reducing its transaction costs. The new systems support business changes focused on giving Hewden’s customers the most convenient and cost effective one-stop shop for all their rental and related service requirements. In addition, Hewden is expected to realize cost savings from the integration of its back office activities, consolidated supply chain activities, more efficient business processes, improved management information and improved internal controls.

Where appropriate, Finning, in all of its operations, has outsourced support for personal computers and printers, and its wide area and local area networks.

3.12 FOREIGN OPERATIONS

In 2007, Finning generated approximately 52% (2006: 54%) of its revenue from operations in Canada; 23% (2006: 21%) from South America; and 25% (2006: 25%) from the UK Group. Revenue from operations outside of Canada contributed 48% of consolidated revenue compared to 46% in 2006.
3.13 ETHICS

The Company’s Code of Conduct (“the Code”) forms the cornerstone of how Finning conducts business and how its employees’ actions contribute to Finning’s collective goals. Finning’s Code sets out the Company’s expectations for the ethical behaviour of all its directors, officers and employees. The Code is reviewed annually by the Company’s senior management and Board of Directors and all directors, officers and key employees are required to sign an acknowledgement of their compliance with the Code. The Code encompasses member ambassadorship, privacy, ethical conduct, confidentiality, health and safety and the environment, fair and full disclosure of the Company’s financial results, and how to deal with breaches to the Code. The Company also has a Whistleblower Policy in place to enable any issues which may arise to be resolved within the Company, rather than outside it, without fear of retaliation. Under the Whistleblower Policy, an employee may contact the Human Resources Department, other members of management, or the Finning Compliance Office directly by phone or e-mail. A confidential compliance Ethics Hotline or Website can be also utilized by employees to report any suspected breach of the Code of Conduct. For more information on the Company’s Code of Conduct and other policies please refer to the investor’s section of the Company’s website www.finning.com.

3.14 ENVIRONMENTAL, HEALTH, AND SAFETY

Environmental protection and worker health and safety are integral parts of Finning’s organizational culture. Finning is committed to the protection of its employees and contractors and to minimizing the impact of their activities on the environment. Finning has programs in place throughout its operations to monitor and satisfy legal environmental protection requirements. Through an environmental audit program, Finning monitors compliance. Key employees are educated on changes to relevant environmental laws and regulations. Regular environmental reports are made to the Environmental, Health, and Safety (“EH&S”) Committee of the Board of Directors. The Company adheres to the Canadian Association of Petroleum Producers (CAPP) Guidelines for reporting its safety statistics and actively seeks Environmental ISO 14001 accreditation (UK dealership has held this accreditation for over three years) and Health and Safety ISO 9000 accreditation for its operating sites. Additional EH&S highlights for 2007 included the following:

- There were no significant environmental incidents in 2007. Finning management is not aware of any environmental protection requirements that are likely to have a material adverse effect on the capital expenditures, earnings or competitive position of the Company.
- Finning (UK) developed an energy audit protocol that looks at minimizing the carbon footprint from branch activities. It has been used to assess the impact of energy use at one of Finning (UK)’s branches and if effective will be rolled out across the UK Dealership.
- The Safety, Health and Environment Management System in Finning South America provides a formal, organized process whereby people plan, perform, assess and improve the safe conduct at work. The system encompasses all levels of activities and documentation related to Safety Management.
- There were no work-related fatalities in the Company’s operations during 2007. In 2005, despite the high standards and emphasis on safety, an employee fatality occurred at one of the Hewden
branches in the U.K. A Coroner’s court inquest was held in 2007 and concluded that the fatality was “Death by Accident”.

- In 2007, Finning reported an average Lost Time Frequency Rate of 0.52 accidents per 200,000 man hours worked, a significant achievement in the face of unprecedented growth in the business. Finning (Canada) is a leader amongst the industry, while OEM experienced only one Lost Time Incident (“LTI”). The table below summarizes Finning’s LTIs and LTI frequencies per operation for 2007:

<table>
<thead>
<tr>
<th>Operation</th>
<th>Canada</th>
<th>OEM</th>
<th>South America</th>
<th>UK Group</th>
<th>Consolidated</th>
</tr>
</thead>
<tbody>
<tr>
<td>LTI</td>
<td>11</td>
<td>1</td>
<td>17</td>
<td>41</td>
<td>70</td>
</tr>
<tr>
<td>LTI frequency</td>
<td>0.28</td>
<td>0.30</td>
<td>0.40</td>
<td>0.84</td>
<td>0.52</td>
</tr>
</tbody>
</table>

4. KEY BUSINESS RISKS

4.1 RISK MANAGEMENT

Finning and its subsidiaries are exposed to market, financial and operating risks in the normal course of their business activities. The Company has adopted an Enterprise Risk Management (“ERM”) approach in identifying, prioritizing and evaluating risks. This ERM framework assists the Company in managing business activities and risks across the organization in order to achieve the Company’s strategic objectives.

The Company is dedicated to a strong risk management culture to protect and enhance shareholder value. The processes within Finning’s risk management function are designed to ensure that risks are properly identified, managed and reported. The Company discloses all of its key risks herein. On a quarterly basis, the Company assesses all of its key risks and any changes to key financial or business risks are disclosed in the Company’s quarterly Management’s Discussion and Analysis (“MD&A”).

4.2 CONTROLS AND PROCEDURES CERTIFICATION

Disclosure Controls and Procedures

Management is responsible for establishing and maintaining a system of controls and procedures over the public disclosure of financial and non-financial information regarding the Company. Such controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), on a timely basis so that appropriate decisions can be made regarding public disclosure.

The Company has a Disclosure Policy and a Disclosure Committee in place to mitigate risks associated with the disclosure of inaccurate or incomplete information, or failure to disclose required information.

The Disclosure Policy sets out accountabilities, authorized spokespersons and Finning’s approach to the determination, preparation and dissemination of material information. The policy also defines restrictions on insider trading and the handling of confidential information.
A Disclosure Committee, consisting of senior management and external legal counsel, review all financial information prepared for communication to the public to ensure it meets all regulatory requirements and is responsible for raising all outstanding issues it believes require the attention of the Audit Committee prior to recommending disclosure for that Committee’s approval.

As required by Multilateral Instrument 52-109, “Certification of Disclosure in Issuers’ Annual and Interim Filings” issued by the Canadian Securities regulatory authorities, an evaluation of the effectiveness of the design and operation of the Company’s disclosure controls and procedures was conducted as of December 31, 2007, by and under the supervision of management, including the CEO and CFO. The evaluation included documentation review, enquiries and other procedures considered by management to be appropriate.

Based on that evaluation, the CEO and CFO have concluded that the Company’s disclosure controls were effective as of December 31, 2007.

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles. There is an inherent risk to the Company if it is unable to meet and comply with its reporting requirements and other obligations in a timely and effective fashion. Moreover the ability to maintain effective internal controls could result in a material misstatement. Management believes that the Company has the expertise and the appropriate controls in place to mitigate these risks.

There have been no changes in internal control over financial reporting during the year ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

4.3 FINANCIAL DERIVATIVES

The Company uses various financial instruments such as interest rate swaps, forward foreign exchange contracts, and variable rate share forwards as well as foreign currency debt to manage its foreign currency and interest rate exposures and expenses which fluctuate with share price movements (see notes 3 and 4 of the Notes to the Consolidated Financial Statements for the year ended December 31, 2007). The Company uses derivative financial instruments only in connection with managing related risk positions and does not use them for trading or speculative purposes.

The Company continually evaluates and manages risks associated with financial derivatives, which includes counterparty credit exposure. The Company manages its credit exposure by ensuring there is no significant concentration of credit risk with a single counterparty, and by dealing only with highly rated financial institutions as counterparties.
4.4 FINANCIAL RISKS AND UNCERTAINTIES

4.4.1 Foreign Exchange Exposure

The Company is geographically diversified, with significant investments in several different countries. The Company transacts business in multiple currencies, the most significant of which are the U.S. dollar, the Canadian dollar, the U.K. pound sterling, and the Chilean peso. As a result, the Company has a certain degree of foreign currency exposure with respect to items denominated in foreign currencies. The three main types of foreign exchange risk of the Company can be categorized as follows:

Investment in Foreign Operations

All of the Company’s foreign operations are considered self-sustaining. Accordingly, assets and liabilities are translated into Canadian dollars using the exchange rates in effect at the balance sheet dates. Any unrealized translation gains and losses are recorded as an item of comprehensive income and accumulated other comprehensive income. Cumulative currency translation adjustments are recognized in net income when there is a reduction in the Company’s net investment in the self-sustaining foreign operations.

It is the Company’s objective to manage its exposure in net foreign investments. The Company has hedged a portion of its foreign investments through foreign currency denominated loans and other derivative contracts. Any exchange gains or losses arising from the translation of the hedging instruments are recorded as an item of comprehensive income and accumulated other comprehensive income. A 5% hypothetical strengthening of the Canadian dollar relative to all other currencies from the December 2007 month end rates, assuming the same current level of hedging instruments, would result in an after-tax deferred unrealized loss of approximately $50 million.

Transaction Exposure

Many of the Company’s operations purchase, sell, rent, and lease products as well as incur costs throughout the world using different currencies. This potential mismatch of currencies creates transactional exposure at the operational level, which may affect the Company’s profitability as exchange rates fluctuate. It may also impact the Company’s competitive position as relative currency movements affect the business practices and/or pricing strategies of the Company’s competitors.

It is the Company’s objective to manage the impact of exchange rate movements and volatility in results. Each operation manages the majority of its transactional exposure through effective sales pricing policies. The Company also enters into forward exchange contracts to manage residual mismatches in foreign currency cash flows. As a result, the foreign exchange impact on earnings with respect to transactional activity is not significant.

Translation Exposure

The most significant foreign exchange impact on the Company’s net income is the translation of foreign currency based earnings into Canadian dollars each reporting period. All of the Company’s foreign subsidiaries report their operating results in currencies other than the Canadian dollar. Therefore, exchange rate movements in the U.S. dollar and U.K. pound sterling relative to the Canadian dollar will impact the consolidated results of the South American and U.K operations in Canadian dollar terms. In addition, the Company’s Canadian results are impacted by the translation of their U.S. dollar based earnings. Some of the Company’s earnings translation exposure is offset by interest on foreign currency denominated loans and derivative contracts associated with the net investment hedges.
Sensitivity to Variances in Foreign Exchange Rates

The sensitivity of the Company’s net earnings to fluctuations in average annual foreign exchange rates is summarized in the table below. The table assumes that the Canadian dollar strengthens 5% against the currency noted, for a full year relative to the December 2007 month end rates, without any change in local currency volumes or hedging activities.

<table>
<thead>
<tr>
<th>Currency</th>
<th>December 31, 2007 month end rates</th>
<th>Increase (decrease) in annual net income (C$ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD</td>
<td>0.9881</td>
<td>(16)</td>
</tr>
<tr>
<td>GBP</td>
<td>1.9600</td>
<td>(1)</td>
</tr>
<tr>
<td>CHP</td>
<td>0.0020</td>
<td>3</td>
</tr>
</tbody>
</table>

The sensitivities noted above ignore the impact of exchange rate movements on other macroeconomic variables, including overall levels of demand and relative competitive advantages. If it were possible to quantify these impacts, the results would likely be different from the sensitivities shown above.

4.4.2 Financing Arrangements

The Company will require capital to finance its future growth and to refinance its outstanding debt obligations as they come due for repayment. If the cash generated from the Company’s business, together with the credit available under available bank facilities, is not sufficient to fund future capital requirements, the Company will require additional debt or equity financing in the capital markets. The Company’s ability to access capital markets on terms that are acceptable will be dependent upon prevailing market conditions, as well as the Company’s future financial condition. Further, the Company’s ability to increase its debt financing may be limited by its financial covenants or its credit rating objectives. Although the Company does not anticipate any difficulties in raising necessary funds in the future, there can be no assurance that capital will be available on suitable terms and conditions, or that borrowing costs and credit ratings will not be adversely affected. In addition, the Company’s current financing arrangements contain certain restrictive covenants that may impact the Company’s future operating and financial flexibility.

4.4.3 Commodity Prices

The Company’s revenues can be affected by fluctuations in commodity prices; in particular, changes in views on long-term commodity prices. In Canada, commodity price movements in the forestry, metals, coal, and petroleum sectors can have an impact on customers’ demands for equipment and customer service. In Chile and Argentina, significant fluctuations in the price of copper and gold can have similar effects, as customers base their capital expenditure decisions on the long-term outlook for metals. In the U.K., changes to prices for thermal coal may impact equipment demand in that sector. While commodity prices continue to be strong, significant fluctuations in future prices could result in a material adverse impact on the Company’s financial results.
4. 4.4 Interest Rates

The Company’s debt portfolio is comprised of both fixed and floating rate debt instruments, with terms to maturity ranging up to six years. In relation to its debt financing, the Company is exposed to potential changes in interest rates, which may cause the Company’s borrowing costs to fluctuate. Floating rate debt exposes the Company to fluctuations in short-term interest rates, while fixed rate debt exposes the Company to future interest rate movements upon refinancing the debt at maturity. Fluctuations in current or future interest rates could result in a material adverse impact on the Company’s financial results, by causing related finance expense to rise. Further, the fair value of the Company’s fixed rate debt obligations may be negatively affected by declines in interest rates, thereby exposing the Company to potential losses on early settlements or refinancing. The Company minimizes its interest rate risk by balancing its portfolio of fixed and floating rate debt, as well as managing the term to maturity of its debt portfolio. At certain times the Company utilizes derivative instruments such as interest rate swaps to adjust the balance of fixed and floating rate debt to appropriately determined levels.

4. 4.5 Credit Risk

The Company has a large diversified customer base, and is not dependent on any single customer or group of customers. Credit risk is minimized because of the diversification of the Company’s operations as well as its large customer base and its geographical dispersion. Although there is usually no significant concentration of credit risk related to the Company’s position in trade accounts or notes receivable, the Company does have a certain degree of credit exposure arising from its foreign exchange derivative contracts. There is a risk that counterparties to these derivative contracts may default on their obligations. However, the Company minimizes this risk by ensuring there is no excessive concentration of credit risk with any single counterparty, by active credit management and monitoring, and by dealing only with highly rated financial institutions.

4.5 OTHER KEY BUSINESS RISKS

4. 5.1 Reliance on Key Supplier

The majority of the Company’s business involves the distribution and servicing of Caterpillar products. As such, the Company’s business is highly dependent on the continued market acceptance of Caterpillar’s products. The Company believes that Caterpillar has a solid reputation as a manufacturer, with excellent brand recognition and customer support and has high market shares in many of the markets it serves. However, there can be no assurance that Caterpillar will be able to maintain its reputation and market position in the future. If Caterpillar is unsuccessful in developing and enhancing its product lines to meet evolving and sophisticated customer needs, is unable to maintain the quality of its products, or if it is unable to provide its products at competitive prices, the market acceptance for Caterpillar products may deteriorate over time. Any resulting decrease in the demand for Caterpillar products could have a material adverse impact on the Company’s business, results of operations and future prospects.

The Company is also dependent on Caterpillar for the timely supply of parts and equipment to fulfil its deliveries to customers and meet the requirements of the Company’s service maintenance contracts. From time to time, during periods of intense demand, Caterpillar finds it necessary to allocate its supply of particular products among its dealers. Such allocations of supply have not in the past proven to be a significant impediment to the Company in the conduct of its business. However, there can be no assurance
that Caterpillar will continue to supply its products in the quantities and timeframes required by the Company’s customers. Due to high current demand, Caterpillar continues to have certain models of large equipment, large engines, and some parts under managed distribution; the Company has been able to manage this with no significant impact. Caterpillar has implemented some initiatives to improve manufacturing line and supply chain capability. The Company works closely with Caterpillar and its customers to ensure it can meet demand for new products and future deliveries included in its order backlog. When supply constraints have occurred in the past, the Company has been successful in utilizing its rental assets and used equipment to meet demand. Finally, the Company’s product supply could also be disrupted by potential labour disputes or strike action at Caterpillar. Any prolonged delays in product supply may adversely affect the Company’s business, results of operations and financial condition.

4. 5.2 Competition

The Company competes with a large number of equipment vendors worldwide that sell equipment manufactured by companies other than Caterpillar. In addition, the Company operates in a very competitive market in the U.K. Although price competition between the Company and its competitors can be intense, there are a number of factors that have enhanced the Company’s ability to compete throughout its market areas, including: the range and quality of Caterpillar products; the range and quality of the Company’s services and solutions; the Company’s ability to meet sophisticated customer requirements; the Company’s extensive distribution capabilities; the number of sales and service locations; the Company’s proximity to its customers; and the extent of financial services offered by the Company and its suppliers. The Company may encounter increased competition in the future, which may put pressure on sales prices. Further, foreign currency movements could provide relative pricing advantages to competitors who transact their business in different currencies than the Company. Increased competitive pressures or the inability of the Company to maintain the factors which have enhanced its competitive position to date could adversely affect the Company’s business, results of operations, and financial condition.

4. 5.3 Key Personnel

The success of the Company in achieving its goals is largely dependent on the abilities and experience of its senior management team and other key personnel. The Company’s future performance will also depend on its ability to attract, develop, and retain highly qualified employees in all areas of its business. Competition for highly skilled management, sales, and technical personnel is intense, particularly in certain geographic areas where the Company operates. In order to address this risk, the Company has implemented a number of human resource initiatives, including: training and career development programs, succession plans, engagement surveys, performance appraisal systems, and recruiting strategies. Although the Company actively manages its human resource risks, there can be no assurance the Company will be successful in its efforts. The loss of certain key employees, or failure to attract and retain new talent as needed, may have an adverse impact on the Company’s business, results of operations, and future prospects.
4. 5.4 Information Systems and Technology

The integrity, reliability, and availability of technology and the data processed by that technology is an integral part of the Company’s business processes, including marketing of equipment and support services, inventory and logistics, and finance. Some of these systems are integrated with Caterpillar’s core processes and systems. In addition, Caterpillar supplies the basic dealer business system used by the Company in all of its dealership operations. The Company is dependent on Caterpillar for future support and development of these systems and for hosting its DBSi applications.

Caterpillar has announced plans to move to a new version of DBSi with a targeted implementation of 2009. As such, Finning initiated a project to evaluate future Caterpillar systems as well as alternative commercial products which resulted in the selection of the Lawson M3 solution. The implementation of the Lawson M3 solution in all of Finning’s dealership operations will run through 2008 and 2009, with staggered “Go Live” dates in various Finning regions, beginning in 2009. The implementation of any large IT system involves significant process change and organization change which carries the risk of business disruption, failure to achieve expected business benefits, and cost overruns. In addition, Caterpillar will no longer support the current version of DBSi operating in Finning’s dealerships in the UK and Argentina beyond 2009. As the Company’s operations in the UK and Argentina may not have migrated to the new Lawson M3 system prior to the loss of Caterpillar’s system support, there will be an increased risk of system instability. Any disruptions to these systems or the failure of these systems to operate as expected could, depending on the magnitude of the problem, adversely impact the Company’s operating results by limiting the ability to effectively monitor and control the Company’s operations. A rigorous management process is being followed to manage these risks. Change management and training have been identified as critical success factors in the successful implementation of the new systems.

4. 5.5 Growth Initiatives / Integration of Acquisitions / Project Execution

As part of its long-term corporate strategy, the Company intends to grow its business through a combination of organic growth and strategic acquisitions as well as focusing on its core business. The Company’s ability to successfully grow its business will be dependent on a number of factors including: identification of accretive new business or acquisition opportunities; negotiation of purchase agreements on satisfactory terms and prices; prior approval of acquisitions by Caterpillar or other parties, including regulatory authorities; securing attractive financing arrangements; and integration of newly acquired operations into the existing business. All of these activities may be more difficult to implement or may take longer to execute than management anticipates. Further, any significant expansion of the business may increase the operating complexity of the Company, and divert management attention away from regular business activities. Any failure of the Company to manage its acquisition strategy successfully could have a material adverse impact on the Company’s business, results of operations, and financial condition.

The Company believes that a significant opportunity for growth exists in its Power Systems business. To be successful in this area requires strong project management and control procedures. The Company has many initiatives underway, such as improving customer segmentation, facility throughput, and improving forecasting capability to try and grow its parts and service revenue for all of its dealership operations. A greater focus will be placed on meeting customer expectations and numerous actions have been taken to achieve ever improving employee engagement.
In 2008, Finning (Canada) purchased Collicutt, a leading Canadian oilfield service company which will provide Finning (Canada) access to facilities and a highly skilled and experienced workforce in strategic areas within the Finning dealership territory.

Although the Company makes every effort to integrate new operations, there can be no assurance that the Company will fully realize the anticipated revenues, synergies, or other intended benefits associated with potential acquisitions. To date, the Company has been successful in profitably managing its expansion particularly in South America. In the U.K., efforts to combine very different business models, such as Finning Materials Handling with Lex Harvey (acquired in 2003), proved to be a challenging and costly process. Following an extensive review it was determined that the Materials Handling Division of Finning (UK) was not core to the Company and was sold in 2006.

The Company currently has several inter-related projects and strategic initiatives underway for its operations in the U.K. These projects are intended to improve financial performance and realize operational synergies within and between Hewden and Finning (UK) while still providing superior service to customers. As a result, a new organizational structure was implemented for the UK Group along four core market units to be supported by a single back office operation that will provide integrated head office services. Other activities in the UK include: the review of the rental business model to better compete in the rental market; system improvements in Finning (UK); analysis of Finning (UK)’s integrated service offering; implementation of a new information system at Hewden to simplify business processes, provide a lower cost per transaction, improve customer relationships and better support customer requirements; and identification of opportunities for synergies within and between the two operations. The Company has adopted and implemented a project management process and is expanding its capabilities in this area in order to manage risks associated with the complexity of the numerous cost initiatives and projects underway.

4. 5.6 Economic Conditions / Business Cyclicality

Many of the Company’s customers operate in industries that are cyclical in nature. As a result, customer demand for the Company’s products and services may be affected by economic conditions on both a global or local level. Changes in interest rates, inflation, economic growth, levels of taxation, foreign exchange, commodity prices, and the level of government infrastructure spending may influence capital expenditure decisions, and ultimately the Company’s sales. The Company has mitigated some of its exposure to variable business cycles by diversifying its business across a broad range of business activities, industry sectors, and geographic locations. Approximately 70% of the Company’s gross margin was generated from parts, service, and rental activities in 2007, which are significantly less sensitive to swings in commodity prices than are equipment sales. In spite of the Company’s geographic and business diversification, an economic downturn in one or more markets or regions may adversely impact the Company’s operating results, particularly at a regional level.

4. 5.7 Maintenance and Repair Contracts

The Company enters into long-term maintenance and repair contracts with some of its customers. Under these contracts, the Company agrees to maintain certain fleets of customer equipment at negotiated performance levels. The lengths of these contracts vary, often ranging up to five or more years. The contracts are generally a fixed price over the term, although many contracts have additional provisions for inflationary or currency adjustments.
The Company has developed processes and has controls in place to ensure contracts are bid appropriately but due to the long-term nature of these contracts, there is a risk that significant cost overruns may be incurred. If the Company has miscalculated the extent of maintenance work required, or if actual parts and service costs increase beyond the agreed adjustments, contract profitability may be adversely affected. In order to mitigate this risk, the Company performs regular reviews of all significant contracts. All maintenance and repair contracts are validated against historic Finning and Caterpillar data based on conservative component change out periods and usually include an escalation clause to cover inflationary increases in relation to where appropriate in the contract. The Company closely monitors the contracts for early warning signs of cost overruns. Preventative measures such as scheduled oil sampling helps to identify problems early on and reduces the risk of costly repair work.

The manufacturer may, in certain circumstances, share in the cost overruns if profitability falls below a certain threshold. Any failure by the Company to effectively price and manage these contracts could have a material adverse impact on the Company’s business, results of operations and financial condition.

4.5.8 Future Warranty Claims

The Company provides warranties for most of the equipment, parts and services supplied. In many cases, the warranty claim risk is shared jointly with the equipment manufacturer. Accordingly, the Company’s liability is generally limited to the service component of the warranty claim, while the manufacturer is responsible for providing the required parts. There is a risk that product quality erosion or lack of skilled workforce could increase warranty claims in the future, or may be greater than management anticipates. If the Company’s liability in respect of such claims is greater than anticipated, it may have a material adverse impact on the Company’s business, results of operations, and financial condition. To mitigate this risk, the Company reviews every warranty offering by product at least annually to assess the experience with the product and ensure that the appropriate cost factors to service the product over its warranty period are adequate. Insurance may at times be obtained on equipment to further mitigate any warranty exposure. Additionally, the Company works closely with Caterpillar on all product quality issues and has extensive product improvement, product support and pre delivery inspection programs in place.

4.5.9 Defined Benefit Pension Plans

In addition to having defined contribution plans, the Company has a number of defined benefit plans covering certain employee groups in the U.K. and Canada. The Company is responsible for funding its defined benefit plans to ensure accrued benefit obligations will continue to be met by plan assets in the future. The Company’s funding requirements are dependent upon many factors, including the rate of return earned on plan assets, the discount rate used to calculate accrued benefit obligations, and several other actuarial assumptions and experiences. Changes in any of these factors may cause the Company’s pension contributions and related pension expense to fluctuate. As investment markets can be variable, there is a risk that asset returns and discount rates may fall below management’s current estimates. If these unfavourable events occur, the Company may experience an increase in its future pension contributions and related pension expense, which could have a material adverse impact on the Company’s cash flow, results of operations, and financial condition.
Management has taken steps to mitigate some of the risk associated with its defined benefit plans, including: closing defined benefit plans to most new members and replacing them with defined contribution plans; amending plan benefit formulas; and modifying investment and funding strategies to achieve better asset/liability matching. Management anticipates that these changes will help reduce overall pension costs and will decrease future volatility.

4. 5.10 Income Taxes

The Company exercises judgment in estimating its provision for income taxes. Provisions for federal, provincial and foreign taxes are based on the respective laws and regulations in each jurisdiction within which the Company operates. These complex laws and regulations are potentially subject to different interpretation between the Company and the respective tax authority. Due to the number of variables associated with the differing tax laws and regulations across the multiple jurisdictions, the precision and reliability of the resulting estimates are subject to uncertainties and may change as additional information becomes known.

Future income tax assets and liabilities are comprised of the tax effect of temporary differences between the carrying amount and tax basis of assets and liabilities as well as the tax effect of undeducted tax losses, and are measured according to the income tax law that is expected to apply when the asset is realized or liability settled. Assumptions underlying the composition of future income tax assets and liabilities include estimates of future results of operations and the timing of reversal of temporary differences as well as the tax rates and laws in each respective jurisdiction at the time of the expected reversal. The composition of future income tax assets and liabilities is reasonably likely to change from period to period due to the uncertainties surrounding these assumptions.

4. 5.11 International Operations

The Company has operations outside of Canada, including the U.K., Chile, Argentina, Uruguay, and Bolivia. The Company’s international subsidiaries are subject to risks normally associated with the conduct of any business in foreign jurisdictions, including: uncertain political and economic environments; war, insurrection, and other civil disturbances; changes in laws, regulations, and taxation; foreign currency exchange controls; and limitations on the repatriation of earnings. These risks may limit or disrupt operations, increase costs, restrict the movement of funds, or result in the loss of property. Although the Company closely monitors its foreign investment risks, there can be no assurance that the Company will not be adversely affected by political and other events beyond its control.

4. 5.12 Employee Relations

Many of the Company’s employees are represented by unions and are covered by collective bargaining agreements. The Company is party to a number of collective bargaining agreements worldwide, which are subject to expiration at various dates in the future. Although, in 2007, there were no labour disruptions and all negotiations were successfully concluded, there can be no assurance regarding future negotiations. The renegotiation process could result in future work stoppages or higher wages and benefits paid to union members. The Company is committed to the collective bargaining process and to concluding a fair contract for its employees and for Finning. The failure to renew collective agreements upon satisfactory terms could have a material adverse impact on the Company’s business, results of operations, or financial condition.
4. **5.13 Accounting, Valuation and Reporting**

Changes in the rules or standards governing accounting can impact Finning’s financial reporting. The Company employs professionally qualified accountants throughout its finance group and all operating unit financial officers have a reporting relationship to the CFO. Senior financial representatives are assigned to all significant projects that impact financial accounting and reporting systems. Policies are in place to ensure completeness and accuracy of reported transactions. Key transaction controls are in place, and there is a segregation of duties between transaction initiation, processing and cash receipt or disbursement, and there is restricted physical access to the Treasury and cash settlements area. Accounting, measurement, valuation, and reporting of accounts, which involve estimates and/or valuations, are reviewed quarterly by the CFO and the Audit Committee of the Board of Directors. Significant accounting and financial topics and issues are presented to and discussed with the Audit Committee.

In 2006, Canada’s Accounting Standards Board ratified a strategic plan that will result in Canadian generally accepted accounting principles (“GAAP”), as used by public companies, being evolved and converged with International Financial Reporting Standards (“IFRS”) over a transitional period to be complete by 2011. The official changeover date from Canadian GAAP to IFRS is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. As the International Accounting Standards Board currently has projects underway that should result in new pronouncements and since this Canadian convergence initiative is very much in its infancy as of the date of these statements, the Company has not yet assessed the impact of the ultimate adoption of IFRS on the Company. The Company seeks to have a global plan in place for 2008, and believes it has the adequate human and financial resources and project oversight in order to be able to meet the implementation timelines currently contemplated by the regulators.

Management’s discussion and analysis of the Company’s financial condition and results of operations are based on the Company’s consolidated financial statements, which have been prepared in accordance with Canadian GAAP. The Company’s significant accounting policies are contained in Note 1 to the consolidated financial statements. Certain of these policies require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and disclosure of contingent assets and liabilities. These policies may require particularly subjective and complex judgments to be made as they relate to matters that are inherently uncertain and because the likelihood that materially different amounts could be reported under different conditions or using different assumptions. The Company has discussed the development, selection, and application of its key accounting policies, and the critical accounting estimates and assumptions they involve, with the Audit Committee. The more significant estimates include: fair values for goodwill impairment tests, allowance for doubtful accounts, reserves for warranty, provisions for income tax, employee future benefits, and costs associated with maintenance and repair contracts.

Due to the size, complexity, and nature of the Company’s operations, various legal and tax matters are pending. In the opinion of management, none of these matters will have a material effect on the Company’s consolidated financial position or results of operations.
4. 5.14 Caterpillar Dealership Agreements

The Company has a long-standing relationship with Caterpillar that dates back to 1933, when it was awarded its first dealer territory in Canada. For the past 75 years, the Company has continued to develop its relationship with Caterpillar, expanding its dealer territories to the U.K. and South America. The Company enjoys an excellent relationship with Caterpillar, which management is confident will continue to be very strong in the future. However, as is customary in dealership arrangements of this type, the sales and service agreements with Caterpillar are terminable by either party upon 90 days notice in most regions, and upon 180 days notice in the U.K. In the event Caterpillar terminates an agreement, it must repurchase substantially all inventories of new equipment and parts from the Company at cost. Any such termination could have a material adverse impact on the Company’s business, results of operations, and future prospects.

4. 5.15 Government Regulation

The Company's business is subject to evolving laws and government regulations, particularly in the areas of environment, health, and safety. Changes to such laws and regulations may impose additional costs on the Company and may affect its business in other ways, including the requirement to comply with various operating procedures and guidelines that may impact the Company's operations. The Company has in place, in each of its business units, programs of monitoring and compliance to ensure that it meets or exceeds applicable laws and regulatory requirements. In addition, the Board of Directors of the Company has established and maintains an Environmental, Health and Safety Committee. The mandate of the Committee is to encourage, assist and counsel management of the Company in its drive towards attaining and maintaining the highest level of performance in areas relating to the environment, health, and safety. Ensuring a healthy and safe workplace minimizes injuries and other risks employees may face in carrying out their duties, improves productivity and avoids penalties or other liabilities.

4. 5.16 Insurance

The Company maintains a program of insurance coverage that is ordinarily maintained by similar businesses, including property insurance and general liability insurance. Although the limits and deductibles of such insurance have been established through risk analysis and the recommendation of professional advisors, there can be no assurance that such insurance will remain available to the Company at commercially reasonable rates or that the amount of such coverage will be adequate to cover all liability incurred by the Company. If the Company is held liable for amounts exceeding the limits of its insurance coverage or for claims outside the scope of that coverage, its business, results of operations and financial condition could be adversely affected.

4. 5.17 Repurchase Guarantees

In certain circumstances, the Company enters into rights of return for the repurchase of equipment sold to customers, whereby the Company offers to repurchase equipment at a guaranteed price at the end of a specified term. The guaranteed repurchase price is set at an amount lower than the estimated future value of the equipment at the exercise date. The right of return is dependent upon a number of factors, including the condition of the equipment. Historically, the fair market value of the equipment at the exercise date has usually been greater than the guaranteed repurchase price. Although the Company believes it has been very successful in estimating equipment values to date, there can be no assurance that the Company will not incur a loss on such arrangements in the future. To mitigate this risk all guarantees are reviewed on a quarterly basis and where deemed, a provision is made at that time to record a potential loss.
5. SUMMARY OF FINANCIAL INFORMATION

5.1 THREE YEAR SUMMARY

Years Ended December 31
($ millions except per share amounts)

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue from external sources</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>$2,936.2</td>
<td>$2,612.6</td>
<td>$2,049.7</td>
</tr>
<tr>
<td>South America</td>
<td>1,325.6</td>
<td>1,009.9</td>
<td>1,007.3</td>
</tr>
<tr>
<td>UK Group (1)</td>
<td>1,400.4</td>
<td>1,230.7</td>
<td>1,271.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$5,662.2</td>
<td>$4,853.2</td>
<td>$4,328.3</td>
</tr>
<tr>
<td><strong>Earnings before interest and income tax (3)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>$286.3</td>
<td>$233.3</td>
<td>$149.9</td>
</tr>
<tr>
<td>South America</td>
<td>127.4</td>
<td>108.9</td>
<td>93.3</td>
</tr>
<tr>
<td>UK Group (1)</td>
<td>73.0</td>
<td>65.0</td>
<td>43.9</td>
</tr>
<tr>
<td>Other (2)</td>
<td>(30.9)</td>
<td>(33.5)</td>
<td>(29.2)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$455.8</td>
<td>$373.7</td>
<td>$257.9</td>
</tr>
<tr>
<td><strong>Net income from continuing operations</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$280.1</td>
<td>$236.2</td>
<td>$161.7</td>
</tr>
<tr>
<td><strong>(Loss) from discontinued operations, net of tax</strong></td>
<td>(2.0)</td>
<td>(32.1)</td>
<td>2.3</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>$278.1</td>
<td>$204.1</td>
<td>$164.0</td>
</tr>
<tr>
<td><strong>Earnings (loss) per share - basic (4)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>From continuing operations</td>
<td>$1.57</td>
<td>$1.32</td>
<td>$0.91</td>
</tr>
<tr>
<td>From discontinued operations</td>
<td>(0.01)</td>
<td>(0.18)</td>
<td>0.01</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$1.56</td>
<td>$1.14</td>
<td>$0.92</td>
</tr>
<tr>
<td><strong>Earnings (loss) per share - diluted (4)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>From continuing operations</td>
<td>$1.55</td>
<td>$1.31</td>
<td>$0.90</td>
</tr>
<tr>
<td>From discontinued operations</td>
<td>(0.01)</td>
<td>(0.18)</td>
<td>0.01</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$1.54</td>
<td>$1.13</td>
<td>$0.91</td>
</tr>
<tr>
<td><strong>Dividends paid</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Per common share</td>
<td>$0.36</td>
<td>$0.275</td>
<td>$0.22</td>
</tr>
<tr>
<td><strong>Long-term debt (5)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(includes current portion)</td>
<td>$806.1</td>
<td>$738.1</td>
<td>$924.9</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$4,134.2</td>
<td>$4,200.8</td>
<td>$3,736.4</td>
</tr>
</tbody>
</table>

1. On September 29, 2006, the Company’s U.K. subsidiary, Finning (UK), sold its Materials Handling Division. On July 31, 2007, the Company’s U.K. subsidiary, Hewden Stuart, sold its Tool Hire Division. Results of the Materials Handling and Tool Hire divisions have been reclassified to discontinued operations for all periods up to the date of sale.

2. The Company’s Other Segment refers mainly to corporate head office costs and are essentially non-revenue generating. The Company’s other expense and income items that are not considered reflective of the underlying financial performance of the Company from ongoing operations are also included within the Other Segment for 2004. In 2005, 2006, and 2007 results, other expense and income items have been allocated to the operational segment where the expense or income item originated.
3. Earnings before Interest and Income Taxes (EBIT) is defined herein as earnings from continuing operations before interest expense, interest income and income taxes and is a measure of performance utilized by management to measure and evaluate the financial performance of its operating segments. It is also a measure that is commonly reported and widely used in the industry to assist in understanding and comparing operating results. EBIT does not have any standardized meaning prescribed under generally accepted accounting principles (GAAP) and is therefore unlikely to be comparable to similar measures presented by other issuers. Accordingly, this measure should not be considered as a substitute or alternative for net income or cash flow, in each case as determined in accordance with GAAP.

4. On May 9, 2007, the Company’s shareholders approved a split of the Company’s outstanding common shares on a two-for-one basis. Each shareholder of record at the close of business on May 30, 2007, received one additional share for every outstanding share held on the record date. All share and per-share data have been adjusted to reflect the stock split. The Company repurchased 3,691,400 common shares at an average price of $27.82 during the last half of 2007 as part of a normal course issuer bid.

5. In December 2005, the Company entered into an $800 million unsecured syndicated revolving credit facility, which replaced all of its Canadian bilateral bank lines. The facility has a five-year committed term with a one year extension option. During 2006, the Company exercised its option, on the first anniversary date of the credit facility, to extend its maturity date an additional year to 2011. The facility is available in multiple borrowing jurisdictions, and may be drawn by a number of the Company’s principal operating subsidiaries. Borrowings under this facility are available in multiple currencies and at various floating rates of interest.

Following the September 2006 sale of the Company’s Materials Handling Division in the U.K., the Company used a portion of the proceeds to redeem £75 million ($156.6 million) of the original £200 million Eurobond. The Company’s £125.0 million (2005: £200.0 million) 5.625% Eurobond is unsecured, and interest is payable annually with principal due on maturity. For further details regarding the Company’s long-term debt, see Note 3 of the Consolidated Financial Statements for the year ended December 31, 2007.

In December 2006, the Company repaid its $75.0 million 6.60% debenture, on maturity, with short-term borrowings from its bank credit facilities. The Company’s Canadian dollar denominated debenture and medium term notes are unsecured, and interest is payable semi-annually with principal due on maturity.
5.2 THREE YEAR SUMMARY BY QUARTER
(Unaudited)

Results from Continuing Operations:

<table>
<thead>
<tr>
<th>Fiscal Period</th>
<th>Qtr</th>
<th>Revenue ($millions)</th>
<th>Net Income ($millions)</th>
<th>Basic ($)</th>
<th>Diluted ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>1</td>
<td>1,376.0</td>
<td>70.7</td>
<td>0.39</td>
<td>0.39</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>1,497.6</td>
<td>75.3</td>
<td>0.42</td>
<td>0.42</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>1,329.1</td>
<td>63.6</td>
<td>0.35</td>
<td>0.35</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>1,459.5</td>
<td>70.5</td>
<td>0.40</td>
<td>0.39</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>5,662.2</td>
<td>280.1</td>
<td>1.57</td>
<td>1.55</td>
</tr>
<tr>
<td>2006</td>
<td>1</td>
<td>1,128.7</td>
<td>55.3</td>
<td>0.31</td>
<td>0.31</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>1,191.7</td>
<td>56.0</td>
<td>0.31</td>
<td>0.31</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>1,167.7</td>
<td>71.8</td>
<td>0.40</td>
<td>0.40</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>1,365.1</td>
<td>53.1</td>
<td>0.30</td>
<td>0.29</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>4,853.2</td>
<td>236.2</td>
<td>1.32</td>
<td>1.31</td>
</tr>
<tr>
<td>2005</td>
<td>1</td>
<td>1,022.1</td>
<td>37.0</td>
<td>0.21</td>
<td>0.21</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>1,132.6</td>
<td>42.9</td>
<td>0.24</td>
<td>0.24</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>1,105.5</td>
<td>42.8</td>
<td>0.24</td>
<td>0.24</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>1,068.1</td>
<td>39.0</td>
<td>0.22</td>
<td>0.22</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>4,328.3</td>
<td>161.7</td>
<td>0.91</td>
<td>0.90</td>
</tr>
</tbody>
</table>

(1) On May 9, 2007, the Company’s shareholders approved a split of the Company’s outstanding common shares on a two-for-one basis. Each shareholder of record at the close of business on May 30, 2007, received one additional share for every outstanding share held on the record date. All share and per-share data have been adjusted to reflect the stock split.

Basic Earnings per share is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted Earnings per share is calculated to reflect the dilutive effect of outstanding stock options by applying the treasury stock method. Earnings per share (EPS) for each quarter has been computed based on the weighted average number of shares issued and outstanding during the respective quarter; therefore, quarterly amounts may not add to the annual total.

6. MANAGEMENT’S DISCUSSION AND ANALYSIS

Management’s Discussion and Analysis, relating to the Company's audited comparative consolidated financial statements for the fiscal years ended December 31, 2007 and December 31, 2006 and the report of the auditors thereon, is contained in Finning International Inc.’s 2007 Audited Annual Financial Statements and is incorporated by reference in this Annual Information Form.
7. DIVIDENDS

The Board of Directors, in determining whether to declare and pay dividends on the Company’s common shares, considers the Company’s recent and projected earnings, its capital investment requirements and its total return to shareholders. On May 9, 2007, the Company’s shareholders approved a split of the Company’s outstanding common shares on a two-for-one basis. Each shareholder of record at the close of business on May 30, 2007, received one additional share for every outstanding share held on the record date. All share and per-share data have been adjusted to reflect the stock split. Dividends on common shares were $64.5 million or $0.36 per share in 2007, compared with, $49.2 million or $0.275 per share in 2006, and $39.1 million or ($0.22 per share) in 2005. On May 9, 2007 the Company announced that its regular quarterly dividend would increase to 9 cents per share, payable June 7, 2007 to shareholders of record on May 23, 2007, and on November 13, 2007 the Company announced a further increase to 10 cents per share, payable December 12, 2007 to shareholders of record on November 27, 2007. The Company has targeted a dividend payout ratio between 25% and 30% of its Basic Earnings per share.

The Company has declared and paid the following dividends, on the dates and at the rates shown, since February 25, 2005. Except as prescribed by law, Finning is not subject to any restrictions with respect to its ability to declare or pay dividends.

<table>
<thead>
<tr>
<th>Declaration Date</th>
<th>Date Paid/Payable*</th>
<th>Rate Per Share**</th>
</tr>
</thead>
<tbody>
<tr>
<td>February 23, 2005</td>
<td>March 23, 2005</td>
<td>$0.055</td>
</tr>
<tr>
<td>May 11, 2005</td>
<td>June 8, 2005</td>
<td>$0.055</td>
</tr>
<tr>
<td>August 9, 2005</td>
<td>September 6, 2005</td>
<td>$0.055</td>
</tr>
<tr>
<td>November 13, 2005</td>
<td>December 12, 2005</td>
<td>$0.055</td>
</tr>
<tr>
<td>February 15, 2006</td>
<td>March 15, 2006</td>
<td>$0.065</td>
</tr>
<tr>
<td>May 10, 2006</td>
<td>June 7, 2006</td>
<td>$0.065</td>
</tr>
<tr>
<td>August 8, 2006</td>
<td>September 5, 2006</td>
<td>$0.065</td>
</tr>
<tr>
<td>November 14, 2006</td>
<td>December 13, 2006</td>
<td>$0.080</td>
</tr>
<tr>
<td>February 13, 2007</td>
<td>March 15, 2007</td>
<td>$0.080</td>
</tr>
<tr>
<td>May 9, 2007</td>
<td>June 7, 2007</td>
<td>$0.090</td>
</tr>
<tr>
<td>August 7, 2007</td>
<td>September 6, 2007</td>
<td>$0.090</td>
</tr>
<tr>
<td>November 13, 2007</td>
<td>December 12, 2007</td>
<td>$0.100</td>
</tr>
<tr>
<td>February 19, 2008</td>
<td>March 18, 2008*</td>
<td>$0.100</td>
</tr>
</tbody>
</table>

(*) Dividends Payable
(**) Adjusted to reflect two-for-one split May, 2007

8. DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of the Company consists of:

- Unlimited number of preferred shares without par value, of which 4,400,000 are designated as cumulative redeemable preferred shares. As of February 15, 2008, the Company had no preferred shares outstanding.

- Unlimited common shares. As of February 15, 2008, the Company had 172,912,976 common shares issued and outstanding.
A shareholders’ rights plan is in place which is intended to provide all holders of common shares with the opportunity to receive full and fair value for all of their shares in the event a third party attempts to acquire a significant interest in the Company. The plan provides that one share purchase right has been issued for each common share and will trade with the common shares until such time as any person or group, other than a “permitted bidder”, bids to acquire or acquires 20% or more of the Company's common shares, at which time the plan rights become exercisable. The rights may also be triggered by a third party proposal for a merger, amalgamation or a similar transaction. The rights plan will expire at the termination of the Annual Meeting of shareholders to be held in 2008 unless it is extended by shareholders at that meeting.

The plan will not be triggered if a bid meets certain criteria (a permitted bid). These criteria include that:

- the offer is made for all outstanding voting shares of the Company;
- more than 50% of the voting shares have been tendered by independent shareholders pursuant to the bid (voting shares tendered may be withdrawn until taken up and paid for); and
- the bid expires not less than 60 days after the date of the bid circular.

As well, it should be noted that the Company’s dealership agreements with Caterpillar companies are fundamental to Finning’s business and any change in control of Finning must be approved by Caterpillar Inc.

9. CREDIT RATINGS

The current credit ratings on the Company’s securities are as follows:

<table>
<thead>
<tr>
<th></th>
<th>DBRS (1)</th>
<th>S&amp;P (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-Term Debt</td>
<td>R-1(low)</td>
<td>N/A</td>
</tr>
<tr>
<td>Medium Term Notes /</td>
<td>BBB(high)</td>
<td>BBB+</td>
</tr>
<tr>
<td>Debentures</td>
<td>N/A</td>
<td>BBB+</td>
</tr>
<tr>
<td>Eurobond</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes:
(1) Dominion Bond Rating Service Limited (“DBRS”) maintains a positive outlook on the above securities.
(2) Standard and Poor’s (“S&P”) maintains a stable outlook on the above securities.

Credit Ratings Note: A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating organization.

9.1 LONG-TERM DEBT CREDIT RATINGS

The BBB (high) rating for the Company is the highest grade or standing within the BBB category of the DBRS rating scale. The BBB category is the 4th highest of ten categories within the DBRS rating scale and reflects long-term debt that is of adequate credit quality. Protection of interest and principal is considered acceptable, but is still susceptible to adverse changes in financial and economic conditions.

The BBB+ rating for the Company is the highest grade or standing within the BBB category of the S&P rating scale. The BBB category is the 4th highest of ten categories within the S&P rating scale and reflects long-term debt obligations that exhibit adequate protection measures. However, adverse economic conditions or changing circumstances may lead to a weakened capacity of the obligor to meet financial commitments on an obligation.
9.2 SHORT-TERM DEBT CREDIT RATINGS

The R-1 (low) rating for the Company is the 3rd highest of ten categories within the DBRS short-term debt rating scale and considered to be satisfactory credit quality. The overall strength and outlook for key liquidity, debt, and profitability ratios is not normally as favorable as with higher rating categories in the R-1 rating level, but these considerations are still respectable. Any qualifying negative factors that exist are considered quite manageable, given entities rated R-1 (low) are normally of sufficient size to have some influence in their industry.

10. MARKETS FOR THE SECURITIES OF THE COMPANY

The common shares of the Company are listed on the Toronto Stock Exchange under the symbol FTT. The following table sets forth the high and low prices and the volume of common shares traded on the Toronto Stock Exchange during 2007.

<table>
<thead>
<tr>
<th>Month</th>
<th>High $</th>
<th>Low $</th>
<th>Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>January*</td>
<td>24.35</td>
<td>23.10</td>
<td>9,720,000</td>
</tr>
<tr>
<td>February*</td>
<td>26.92</td>
<td>24.54</td>
<td>10,650,000</td>
</tr>
<tr>
<td>March*</td>
<td>26.73</td>
<td>25.40</td>
<td>10,910,000</td>
</tr>
<tr>
<td>April*</td>
<td>28.68</td>
<td>26.71</td>
<td>7,680,000</td>
</tr>
<tr>
<td>May*</td>
<td>32.23</td>
<td>27.98</td>
<td>13,214,700</td>
</tr>
<tr>
<td>June</td>
<td>31.66</td>
<td>28.83</td>
<td>10,181,600</td>
</tr>
<tr>
<td>July</td>
<td>31.39</td>
<td>27.79</td>
<td>6,921,400</td>
</tr>
<tr>
<td>August</td>
<td>30.85</td>
<td>27.46</td>
<td>11,664,000</td>
</tr>
<tr>
<td>September</td>
<td>33.50</td>
<td>31.86</td>
<td>10,287,800</td>
</tr>
<tr>
<td>October</td>
<td>32.50</td>
<td>30.20</td>
<td>9,630,500</td>
</tr>
<tr>
<td>November</td>
<td>32.35</td>
<td>25.13</td>
<td>17,570,000</td>
</tr>
<tr>
<td>December</td>
<td>29.69</td>
<td>27.57</td>
<td>10,930,000</td>
</tr>
</tbody>
</table>

(*) Adjusted to reflect two-for-one split May, 2007

10.1 TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Company’s common shares is Computershare Investor Services Inc. which has offices in Montreal, Toronto, Calgary and Vancouver.
11. DIRECTORS AND OFFICERS

11.1 Directors as of February 19, 2008

<table>
<thead>
<tr>
<th>Name and Municipality of Residence</th>
<th>Principal Occupation</th>
<th>Year First Became Director</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ricardo Bacarreza, Santiago, Chile</td>
<td>President, Pro Invest S.A.</td>
<td>1999</td>
</tr>
<tr>
<td>James E. C. Carter, Edmonton, AB</td>
<td>Corporate Director</td>
<td>2007</td>
</tr>
<tr>
<td>Kathleen M. O’Neill, Toronto, ON</td>
<td>Corporate Director</td>
<td>2007</td>
</tr>
<tr>
<td>Donald S. O’Sullivan, Calgary, AB</td>
<td>President, O’Sullivan Resources Ltd.</td>
<td>1991</td>
</tr>
<tr>
<td>Conrad A. Pinette, Vancouver, BC</td>
<td>Corporate Director</td>
<td>1992</td>
</tr>
<tr>
<td>John M. Reid, Vancouver, BC</td>
<td>Corporate Director</td>
<td>2006</td>
</tr>
<tr>
<td>Andrew H. Simon, OBE, London, England</td>
<td>Corporate Director</td>
<td>1999</td>
</tr>
<tr>
<td>Bruce L. Turner, Santiago, Chile</td>
<td>President, Turner Minerals S.A.</td>
<td>2006</td>
</tr>
<tr>
<td>Douglas W.G. Whitehead, North Vancouver, BC</td>
<td>President and Chief Executive Officer, Finning International Inc.</td>
<td>1999</td>
</tr>
<tr>
<td>John M. Willson, Vancouver, BC</td>
<td>Corporate Director</td>
<td>2000</td>
</tr>
</tbody>
</table>

1 Member, Audit Committee
2 Member, Human Resources Committee
3 Member, Environment, Health and Safety Committee
4 Member, Corporate Governance Committee
5 Chairman of the Board

The Company currently has 4 committees of the Board of Directors: the Audit Committee, the Human Resources Committee, the Environment, Health and Safety Committee, and the Corporate Governance Committee. The members of each committee are indicated by footnote in the list of directors above.

The term of office for all current directors will end on the day of the next Annual Meeting of the Company’s shareholders. Of the directors, Ricardo Bacarreza, Donald O’Sullivan, Andrew H. Simon, Doug W.G. Whitehead, and John M. Willson have held their principal occupation for the past five years. The remaining directors are listed in the following table.
<table>
<thead>
<tr>
<th><strong>Director</strong></th>
<th><strong>Principal Occupation</strong></th>
<th><strong>From</strong></th>
<th><strong>To</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>James E. C. Carter</td>
<td>Corporate Director&lt;br&gt;President, Syncrude Canada Ltd.</td>
<td>2007</td>
<td>Present</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1997</td>
<td>2007</td>
</tr>
<tr>
<td>Kathleen M. O’Neill</td>
<td>Corporate Director&lt;br&gt;Executive Vice President, Personal &amp; Commercial Development &amp; Head of Small Business Banking, BMO Financial Group</td>
<td>2005</td>
<td>Present</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2002</td>
<td>2004</td>
</tr>
<tr>
<td>Conrad A. Pinette</td>
<td>Corporate Director&lt;br&gt;Executive Vice President, Tolko Industries Ltd.&lt;br&gt;Executive Vice President, Riverside Forest Products Limited&lt;br&gt;President and Chief Operating Officer, Lignum Limited</td>
<td>2006</td>
<td>Present</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2005</td>
<td>2005</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2004</td>
<td>2004</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1990</td>
<td>2004</td>
</tr>
<tr>
<td>John M. Reid</td>
<td>Corporate Director&lt;br&gt;President and Chief Executive Officer, Terasen Inc.</td>
<td>2005</td>
<td>Present</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1997</td>
<td>2005</td>
</tr>
<tr>
<td>Bruce L. Turner</td>
<td>President&lt;br&gt;Turner Minerals S.A.&lt;br&gt;Special Projects Advisor of Minera Escondida Ltd. of BHP Billiton Ltd&lt;br&gt;President of Minera Escondida Ltd. of BHP Billiton Ltd.</td>
<td>2005</td>
<td>Present</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2004</td>
<td>2005</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2000</td>
<td>2004</td>
</tr>
</tbody>
</table>
## 11.2 Officers as of February 19, 2008

Each of the officers and other senior executives is listed in the table below with their principal occupations held for the past five years:

<table>
<thead>
<tr>
<th>Officer’s Name and Municipality of Residence</th>
<th>Positions Held</th>
<th>From</th>
<th>To</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andre Beaulieu South Surrey, BC</td>
<td>General Counsel and Corporate Secretary, Finning International Inc.</td>
<td>2007</td>
<td>Present</td>
</tr>
<tr>
<td></td>
<td>Senior Legal Counsel and Corporate Secretary, Kodak Graphic Communications Group, Eastman Kodak Company.</td>
<td>2005</td>
<td>2007</td>
</tr>
<tr>
<td></td>
<td>General Counsel and Corporate Secretary, Inflazyme Pharmaceuticals Inc.</td>
<td>2003</td>
<td>2004</td>
</tr>
<tr>
<td></td>
<td>General Counsel and Corporate Secretary, Pivotal Corporation</td>
<td>2000</td>
<td>2003</td>
</tr>
<tr>
<td>Andrew W. Bone Richmond, BC</td>
<td>President, Power Systems, Finning International Inc.</td>
<td>2008</td>
<td>Present</td>
</tr>
<tr>
<td></td>
<td>Senior Vice President, Customer Support Solutions Finning International Inc.</td>
<td>2007</td>
<td>2008</td>
</tr>
<tr>
<td></td>
<td>Vice President of Branch Operations, Finning (Canada)</td>
<td>2005</td>
<td>2007</td>
</tr>
<tr>
<td></td>
<td>General Manager of Sales and Marketing, Finning (Canada)</td>
<td>2001</td>
<td>2005</td>
</tr>
<tr>
<td>Andrew S. Fraser Wolverhampton, UK</td>
<td>Managing Director, Finning Group, UK</td>
<td>2006</td>
<td>Present</td>
</tr>
<tr>
<td></td>
<td>Group Vice President, Finning (Canada)</td>
<td>2005</td>
<td>2006</td>
</tr>
<tr>
<td></td>
<td>Vice President, Sales and Marketing, Finning (Canada)</td>
<td>2003</td>
<td>2005</td>
</tr>
<tr>
<td></td>
<td>Vice President, Operations and Customer Relations, Finning (Canada)</td>
<td>2001</td>
<td>2003</td>
</tr>
<tr>
<td>Sandeep Kalra Coquitlam, BC</td>
<td>Vice President, Corporate Treasurer, Finning International Inc.</td>
<td>2007</td>
<td>Present</td>
</tr>
<tr>
<td></td>
<td>Vice President Finance, Finning South America</td>
<td>2003</td>
<td>2007</td>
</tr>
<tr>
<td></td>
<td>Director of Financial Reporting and Analysis Finning International Inc.</td>
<td>2000</td>
<td>2003</td>
</tr>
<tr>
<td>Officer’s Name and Municipality of Residence</td>
<td>Positions Held</td>
<td>From</td>
<td>To</td>
</tr>
<tr>
<td>---------------------------------------------</td>
<td>-------------------------------------------------------------------------------</td>
<td>-------</td>
<td>--------</td>
</tr>
<tr>
<td>Anna P. Marks North Vancouver, BC</td>
<td>Senior Vice President and Corporate Controller, Finning International Inc.</td>
<td>2008</td>
<td>Present</td>
</tr>
<tr>
<td></td>
<td>Vice President and Corporate Controller, Finning International Inc.</td>
<td>2003</td>
<td>2008</td>
</tr>
<tr>
<td></td>
<td>Controller, Union Gas Limited (Subsidiary of Duke Energy Gas Transmission)</td>
<td>2002</td>
<td>2003</td>
</tr>
<tr>
<td>Thomas M. Merinsky North Vancouver, BC</td>
<td>Vice President, Investor Relations, Finning International Inc.</td>
<td>2004</td>
<td>Present</td>
</tr>
<tr>
<td></td>
<td>Director, Investor Relations, Teck Cominco Limited</td>
<td>2002</td>
<td>2004</td>
</tr>
<tr>
<td>Conrad A. Pinette Vancouver, BC</td>
<td>Corporate Director, Tolko Industries Ltd.</td>
<td>2006</td>
<td>Present</td>
</tr>
<tr>
<td></td>
<td>Executive Vice President, Riverside Forest Products Limited</td>
<td>2005</td>
<td>2005</td>
</tr>
<tr>
<td></td>
<td>Executive Vice President, Riverside Forest Products Limited</td>
<td>2004</td>
<td>2004</td>
</tr>
<tr>
<td></td>
<td>President and Chief Operating Officer, Lignum Limited</td>
<td>1990</td>
<td>2004</td>
</tr>
<tr>
<td>David Primrose Vancouver, BC</td>
<td>Senior Vice President, Corporate Human Resources, Finning International Inc.</td>
<td>2008</td>
<td>Present</td>
</tr>
<tr>
<td></td>
<td>Vice President, Human Resources, Finning (Canada)</td>
<td>2006</td>
<td>2008</td>
</tr>
<tr>
<td></td>
<td>Divisional Director, Power Systems, Finning (UK)</td>
<td>2003</td>
<td>2006</td>
</tr>
<tr>
<td></td>
<td>Regional Manager Oil Sands Division, Finning (Canada)</td>
<td>2001</td>
<td>2003</td>
</tr>
<tr>
<td>Ian M. Reid Edmonton, AB</td>
<td>President, Finning (Canada)</td>
<td>&gt; 5 years</td>
<td>Present</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Officer’s Name and Municipality of Residence</td>
<td>Positions Held</td>
<td>From</td>
<td>To</td>
</tr>
<tr>
<td>---------------------------------------------</td>
<td>----------------</td>
<td>------</td>
<td>----</td>
</tr>
<tr>
<td>Juan Carlos Villegas Santiago, Chile</td>
<td>President, Finning South America</td>
<td>2006</td>
<td>Present</td>
</tr>
<tr>
<td></td>
<td>Vice President, Power Systems, Finning (Canada)</td>
<td>2005</td>
<td>2006</td>
</tr>
<tr>
<td></td>
<td>Vice President, Mining, Finning South America</td>
<td>2003</td>
<td>2005</td>
</tr>
<tr>
<td></td>
<td>Vice President, Operations, Finning (Chile)</td>
<td>2000</td>
<td>2003</td>
</tr>
<tr>
<td>Michael T. Waites Vancouver, BC</td>
<td>Executive Vice President and Chief Financial Officer, Finning International Inc.</td>
<td>2006</td>
<td>Present</td>
</tr>
<tr>
<td></td>
<td>Executive Vice President, Chief Financial Officer and Chief Executive Officer, U.S. Network, Canadian Pacific Railway</td>
<td>2003</td>
<td>2006</td>
</tr>
<tr>
<td></td>
<td>Executive Vice President and Chief Financial Officer, Canadian Pacific Railway</td>
<td>2001</td>
<td>2003</td>
</tr>
<tr>
<td>Douglas W.G. Whitehead North Vancouver, BC</td>
<td>President and Chief Executive Officer, Finning International Inc.</td>
<td>2000</td>
<td>Present</td>
</tr>
</tbody>
</table>

11.3 Shareholdings of Directors and Officers

The directors and the officers of the Company as a group beneficially own, directly or indirectly, or exercise control or direction over, approximately 0.32% of the Company’s voting common shares.

11.4 Cease Trade Orders, Bankruptcies, Penalties or Sanctions

To the knowledge of the Company, in the last 10 years, no director or officer of the Company or a shareholder holding a significant number of securities of the Company to affect materially the control of the Company, is or has been a director or officer of any other issuer that, while that person was acting in that capacity: (i) was the subject of a cease trade order or similar order, or an order that denied the other issuer access to any exemptions under Canadian securities legislation for a period of more than 30 consecutive days; or (ii) became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets.
12. INTERESTS OF EXPERTS

Deloitte & Touche LLP is the independent auditor of the Company. Deloitte & Touche LLP have audited the Company’s consolidated financial statements and have prepared and executed the audit report which accompanies the consolidated financial statements in the Company’s 2007 Audited Annual Financial Statements. The audit report indicates that the statements present fairly, in all material respects, the financial position of the Company as at the two most recently ended financial year ends, results of its operations and cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

13. AUDIT COMMITTEE

The Terms of Reference for the Audit Committee (a copy of which is attached as Appendix A to this Annual Information Form) require that it be comprised of at least three independent directors. The current members of the Committee are A.H. Simon (Chairman), R. Bacarreza, James E.C. Carter, K.M. O’Neill, and J.M Reid and all are independent directors. In addition, Conrad A. Pinette attends meetings of the Audit Committee in his capacity as Chairman of the Board. All Committee members are required to be independent and financially literate (as such terms are defined in Multilateral Instrument 52-110 – Audit Committees) and at least one member is required to have accounting or related financial management expertise. Ms. K.M. O’Neill is the designated “financial expert” member of the Committee.

In addition to each member’s general business experience, the education and experience of each member of the Audit Committee that is relevant to the performance of their responsibilities as a member of the Audit Committee is set forth below.

Andrew H. Simon, OBE, is a Corporate Director who serves on the Boards of Directors of a number of companies including SGL Carbon AG, Dalkia Plc, Travis Perkins Plc, Management Consulting Group Plc. He is also currently the Chairman of Azelis S.A. For most of his career, Mr. Simon worked for the Evode Group, an international specialty chemicals and materials company. At Evode, he held various positions including Managing Director and Chairman and Chief Executive Officer. Mr. Simon holds a Bachelor of Science degree from Southampton University and an MBA from the Wharton School of Finance.

Ricardo Bacarreza is currently the President of Pro Invest S.A., a financial services company based in Santiago, Chile. In his career, Mr. Bacarreza has been an Economist at the World Bank (Washington, D.C.), a Vice President of Banco Unido De Fomento (Chile) and Chief Executive Officer of Banco Del Trabajo (Chile), La Chilena Consolidada Insurance Company (Chile), Banco Sudamericano (Chile), and Banco BHIF (Chile). Mr. Bacarreza has been on the Board of Directors of a number of companies and has served as director and Chairman of the Chilean Management Institute. He holds a civil engineering degree from Catholic University of Chile and an M.A., M.Sc. and Ph.D. from Stanford University.

James E. C. Carter is a Corporate Director who serves on the Boards of Directors of a number of companies including EPCOR Inc., the Alberta Research Council and CAREERS: The Next Generation. Prior to 2007, Mr. Carter was the President and Chief Operating Officer of Syncrude Canada. Mr. Carter holds a Bachelor of Engineering Degree in Mining Engineering from the
Technical University of Nova Scotia, and is a graduate of the Advanced Management Program at Harvard Graduate School of Business Administration.

**Kathleen M. O’Neill** is a Corporate Director and currently is a member of the Board of Directors of the TSX Group Inc., MDS Inc., and Canadian Tire Bank. Prior to 2005, Ms O’Neill was an Executive Vice-President at BMO Financial Group where her most recent position was Executive Vice-President, Personal & Commercial Development and Head of Small Business Banking. Prior to joining BMO Financial Group in 1994, Ms. O’Neill was with PricewaterhouseCoopers LLP for 19 years including eight years as a tax partner. Ms O'Neill is Chair of St. Joseph’s Health Centre Foundation and a past Chair of St Josephs Health Centre in Toronto, and is active on several non-profit boards. In 2005, she was accredited through the Institute of Corporate Directors / Rotman School of Management Directors Education Program. She holds a Bachelor of Commerce Degree (with Honours) from the University of Toronto and is a Fellow of the Institute of Chartered Accountants.

**John M. Reid** is a Corporate Director. From November 1997 to November 2005 he was President and Chief Executive Officer of Terasen Inc. (formerly BC Gas Inc.). Mr. Reid joined Terasen Inc. in May 1995 as Executive Vice President, Finance and Chief Financial Officer. Formerly, Mr. Reid worked with Scott Paper Limited for 15 years in a number of senior financial positions and as President and Chief Executive Officer. Mr. Reid currently serves on the boards of Methanex Corporation. Over the years, he has served on many boards including MacDonald Dettwiler & Associates Ltd., the University of British Columbia, Lester B. Pearson College, St. Paul’s Hospital Foundation, Vancouver Board of Trade, Junior Achievement of British Columbia and the Financial Executives Institute. Mr. Reid is a Fellow of the British Columbia and England and Wales Institutes of Chartered Accountants

The Committee provides assistance to the Board of Directors in fulfilling its oversight responsibility to the shareholders with respect to the Company’s: (a) financial statements; (b) financial reporting process; (c) systems of internal and disclosure controls; (d) internal audit function; (e) external audit function; (f) financial arrangements and liquidity and (g) risk identification, assessment and management program. It is the responsibility of the Committee to maintain an open avenue of communication between itself, the external auditors, the internal auditors and the management of the Company. In performing its role, the Committee is empowered to investigate any matter brought to its attention, with full access to all books, records, facilities and personnel of the Company. It is also empowered to retain outside counsel or other experts as required.

The Committee met 4 times in 2007 in conjunction with regularly scheduled Board meetings.
13.1 Audit Fees

Fees paid or accrued by the Company and its major business units or subsidiaries for audit and other services provided by Deloitte & Touche LLP (the Company’s external auditors) during 2006 and 2007 were as follows:

<table>
<thead>
<tr>
<th>Type of Service</th>
<th>2007*</th>
<th>2006*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit Services</td>
<td>$2,100,729</td>
<td>$2,180,850</td>
</tr>
<tr>
<td>Audit-Related Services (1)</td>
<td>308,911</td>
<td>50,000</td>
</tr>
<tr>
<td>Tax Services (2)</td>
<td>184,329</td>
<td>489,000</td>
</tr>
<tr>
<td>Other Services (3)</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>$2,593,969</strong></td>
<td><strong>$2,719,850</strong></td>
</tr>
</tbody>
</table>

* amounts were billed in various currencies and converted to Canadian dollars using the exchange rates in existence at the time of billing

Notes:

(1) Audit related services include assurance and related services, such as audits of the Company’s pension plans, that were reasonably related to the performance of the audit or review of the Company’s financial statements not reported as Audit Services.

(2) Tax services include tax compliance reviews, review of the tax impact of specific transactions, assistance with inquiries from tax authorities, and international employee relocation advice.

(3) Other services would include any non audit-related or non tax services.

Pre-approval Policies and Procedures

The Audit Committee has adopted a formal policy requiring the pre-approval of non-audit services to be provided by its external auditors, Deloitte & Touche LLP, prior to the commencement of the engagement. Between regularly scheduled Audit Committee meetings, the Committee has delegated to the Chair of the Audit Committee the authority to approve individual non-audit service engagements that have not been pre-approved. All engagements where such approval was granted will be reported at the next Audit Committee meeting. Under no circumstances will the Company’s management engage the external auditors to perform services that have not been approved by the Audit Committee. Management and the external auditor are required to report quarterly to the Audit Committee all services provided by the external auditor and fees paid or accrued for the fiscal year-to-date period.

The Committee determined that the provision of the audit-related and tax services described above did not compromise the independence of Deloitte & Touche LLP for purposes of performing audit services for the Company. In addition, as the Company’s external auditors, Deloitte & Touche LLP are required to comply with the terms of the Company’s “Terms of Reference for External Auditors”.

Recent Regulatory Developments

During 2006 and 2007, there were a number of regulatory instruments issued by the Canadian Securities Administrators (the “CSA”) which impacted the Audit Committee and its mandate. These instruments include:

(a) Multilateral Instrument 52-109, which requires the Company’s CEO and CFO to certify the Company’s interim and annual filings is likely to be amended in early 2008 to require annual management assessment of the effectiveness of the Company’s internal controls and procedures, internal control over financial reporting is necessary for the Company to
provide reliable financial reports, to effectively reduce the risk of fraud and error to operate successfully as a public company.

(b) Multilateral Instrument 52-110, which contains rules relating to the composition and obligations of audit committees; and

(c) National Instrument 51-102, which details the continuous disclosure obligations of public companies and indicates what approvals are required in respect of annual and interim financial information filed with regulatory agencies.

In response to these developments, the Audit Committee, both directly and through oversight and direction of management, has taken steps and implemented processes to ensure that the Company complies with its obligations under each of these instruments. These steps include:

• ensuring the appropriate level of internal controls, analysis and reporting systems are in place to permit the Certifying Officers to provide all necessary certifications of the Company’s interim and annual filings.

• monitoring the Company’s progress on its process related to management’s first report on their assessment of the effectiveness of internal control over financial reporting currently proposed under Multilateral Instrument 52-109.

• ensuring the composition of the Audit Committee and its mandate satisfy all requirements of Multilateral Instrument 52-110. In this regard, the Audit Committee and the Board are satisfied that all members of the Audit Committee are independent and financially literate. In addition, the Audit Committee’s Terms of Reference and the Terms of Reference for External Auditors are designed to ensure that the Audit Committee satisfies all of its obligations under the Instrument including: recommending to the Board both the firm to serve as external auditor and the compensation to be paid to that firm; overseeing the work of the external auditor; approving all non-audit services to be provided by the auditor; reviewing the Company’s interim and annual filings and financial press releases; reviewing the accuracy and adequacy of the Company’s public disclosure of financial information; establishing procedures to deal with internal complaints or issues relating to the Company’s accounting, internal controls or audit matters; and approving the Company’s hiring policy with respect to present or former partners and employees of the Company’s external auditors.

**Enterprise Risk Management**

The Company has adopted an Enterprise Risk Management approach to identifying and evaluating risks in order to protect and enhance shareholder value. On a quarterly basis, the Audit Committee reviews the Company’s process with respect to risk assessment and management of key risks, including the Company’s major financial risks and exposures and the steps taken to monitor and control such exposures. The Enterprise Risk Management Process involves the identification, by each of the Company’s significant operations, of key risks that could impact the achievement of the Company’s strategic plan. The management of each of these key risks is monitored closely and disclosed annually in the Company’s Annual Information Form. Any changes to the key risks are reviewed by the Audit Committee and disclosed on a quarterly basis in the Company’s interim financial filings.
14. ADDITIONAL INFORMATION

Additional information, including directors’ and officers’ remuneration, indebtedness, options to purchase securities and interests of insiders in material transactions is contained in the Company’s Management Proxy Circular for its most recent annual meeting of shareholders, a copy of which may be obtained upon request to the Corporate Secretary of the Company. Additional financial information is provided in the Company’s consolidated financial statements for its year ended December 31, 2007 and its accompanying management discussion and analysis.

Copies of documents noted above and other disclosure documents may also be examined and/or obtained through the internet by accessing the Company’s website at www.finning.com or by accessing the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) website at www.sedar.com.
Appendix A

Terms of Reference for the Audit Committee

(I) PURPOSE

A. The primary purpose of the Audit Committee (the “Committee”) is to assist the Board in fulfilling its oversight responsibilities to the shareholders, potential shareholders, the investment community, and others by overseeing:

   (i) the financial information that will be provided to the shareholders and others;
   (ii) audits of the financial statements;
   (iii) the systems of internal and disclosure controls established by management and the Board;
   (iv) all audit, accounting and financial reporting processes; and
   (v) compliance with relevant laws, regulations and policies.

B. Primary responsibility for the financial reporting, information systems, risk management and internal and disclosure controls of the Corporation is vested in management and is overseen by the Board.

C. It is the Committee’s responsibility to maintain an open avenue of communication between the Committee, the External Auditors, the Internal Auditors and management of the Corporation.

D. In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the Corporation and the power to retain outside counsel, or other experts for this purpose.

(II) COMPOSITION AND OPERATIONS

A. This charter governs the operations of the Committee.

B. The Committee is appointed by the Board and shall consist of at least three directors, all of whom shall be independent as defined in the Guidelines for the Board of Directors.

C. An Audit Committee member may belong to a maximum of two Audit Committees at publicly listed companies other than the Audit Committee of the Corporation.
D. All Committee members are financially literate, (or will become financially literate within a reasonable period of time after appointment to the Committee), and at least one member shall be designated as an “Audit Committee Financial Expert”¹.

E. The Committee shall meet not less than four times per year.

F. A majority of Committee members constitute a quorum.

G. The function of the Committee is oversight. It is not the duty of the Committee to plan or conduct audits or to determine that the Corporation’s financial statements fairly present the Corporation’s financial position and results of operation and are in accordance with generally accepted accounting principles. Such duties remain the responsibility of management and the External Auditor.

(III) DUTIES AND RESPONSIBILITIES

Subject to the powers and duties of the Board, the Committee will perform the following duties:

A. Financial Statements and Other Financial Information

The Committee shall:

(i) review and discuss with management and the External Auditor before public disclosure:
   (a) Consolidated Financial Statements of the Corporation;
   (b) Management’s Discussion and Analysis; and
   (c) Interim earnings press releases of the Corporation;

(ii) satisfy itself that adequate procedures are in place for the review of the public disclosure of financial information extracted or derived from the Corporation’s financial statements and periodically assess the adequacy of those procedures;

(iii) receive quarterly updates and reports on the Corporation’s credit status with banks and credit rating agencies;

(iv) discuss with management and the External Auditor the quality of reporting and adherence to generally accepted accounting principles (“GAAP”);

(v) review significant changes in the Corporation’s selection or application of accounting principles, and major issues as to the adequacy of the Corporation’s internal controls and any special audit steps adopted in light of material control deficiencies; and

¹ Definition in the United States Sarbanes-Oxley Act of 2002: An Audit Committee Financial Expert has, through education and experience as a public accountant or auditor or a principal financial officer, comptroller, or principal accounting officer of an issuer, or from a position involving the performance of similar functions:
   1) an understanding of generally accepted accounting principles and financial statements;
   2) experience in— (A) the preparation or auditing of financial statements of generally comparable issuers; and (B) the application of such principles in connection with the accounting for estimates, accruals, and reserves;
   3) experience with internal accounting controls; and
   4) an understanding of audit committee functions.
(vi) review analyses prepared by management and/or the External Auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements.

B. External Auditors

(i) The Committee shall:

(a) review and recommend to the Board the selection of the Corporation’s External Auditors;

(b) The Committee has the authority and responsibility to hire, evaluate, determine compensation for and, where appropriate, replace the External Auditors, subject to shareholder approval.

(c) require the External Auditors to report directly to the Committee;

(d) communicate directly with the External Auditors, including the ability to meet independently with the External Auditors;

(e) annually obtain and review a report by the External Auditor describing:

1. recommendations resulting from their review of internal control and accounting systems;

2. any material issues raised by the most recent internal control review, or peer review, of the Corporation, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the Corporation, and

3. any steps taken to deal with any such issues.

(f) review with the External Auditor any audit problems or difficulties and management’s response;

(ii) The Committee shall be responsible for ensuring that the External Auditors submit on a periodic basis to the Committee a formal written statement delineating all relationships between the External Auditors and the Corporation; actively engaging in a dialogue with the External Auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the External Auditors; and for recommending that the Board take appropriate action in response to the External Auditors’ report to satisfy itself of the External Auditors’ independence.

(iii) The Committee shall discuss with the External Auditors the scope and plans for their audits including the adequacy of resources. The Committee shall meet separately with the External Auditors, with and without management present, to discuss the results of their examinations.
C. Internal Auditors

The Committee will:

(i) review the activities, resources and organization structure of the internal audit function and ensure no unjustified restrictions or limitations are made;

(ii) participate in the appointment, promotion or dismissal of the lead Internal Auditor; and discuss with the External Auditor the standard of work of the Internal Auditors;

(iii) review the effectiveness of the internal audit function.

(iv) meet separately with the Internal Auditors to discuss any matters the Committee or the Internal Auditors believe should be discussed privately;

(v) ensure the internal audit’s significant findings and recommendations are received, discussed and appropriately acted on by management; and

(vi) review the scope and proposed annual internal audit plan and ensure it addresses key areas of risk and ensure there is appropriate coordination with the Committee and the External Auditor.

D. Risk Management, Internal Control and Information Systems

The Committee will review and obtain reasonable assurance that the risk management, internal control and information systems are operating effectively to produce accurate, appropriate and timely management and financial information. This includes:

(i) discussion with management, the Internal Auditors and the External Auditors of the adequacy and effectiveness of the internal controls, including financial controls and the Corporation’s system to monitor and manage business risk; and

(ii) obtaining reasonable assurance that the information systems are reliable and the systems of internal controls are properly designed and effectively implemented through discussions with and reports from management, the Internal Auditor and External Auditor.

E. Compliance

The Committee shall:

(i) assist with Board oversight of the Corporation’s compliance with legal and regulatory requirements;

(ii) review the process for the certification of the interim and annual financial statements by the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), and the certifications made by the CEO and CFO;
(iii) **discuss the Corporation’s compliance with tax laws, legal withholdings requirements, environmental protection laws**, privacy laws, and any other area of compliance monitoring that the Committee considers appropriate;

(iv) **ensure the External Auditor’s fees are disclosed by category in the Annual Information Form in compliance with regulatory requirements and in such other documents the Committee may determine**;

(v) **disclose any specific policies or procedures adopted for pre-approving non-audit services by the External Auditor, including affirmation that they meet regulatory requirements**;

(vi) **prepare a report of the Committee’s activities to be included in the annual proxy statement**;

(vii) **with regard to the Code of Ethics for Senior Executive and Financial Officers:**

(a) consider any amendments to this Code in conjunction with the Board; and

(b) consider any request for a waiver to the provision of this Code in conjunction with the Board and if such waiver is approved, ensure it is disclosed promptly to meet regulatory requirements, if any.

(viii) **assist the Corporate Governance Committee with preparing the Corporation’s governance disclosure by ensuring it has current and accurate information with respect to:**

(a) the independence of each Committee member relative to regulatory requirements for the Audit Committee;

(b) the state of financial literacy of each Committee member, including the name of any member(s) currently in the process of acquiring financial literacy and when they are expected to attain this status;

(c) the education and experience of each Committee member relevant to his or her responsibilities as Committee member; and

(d) disclose if the Corporation has relied upon any exemptions to the requirements for Audit Committees under regulatory requirements.

**F. OTHER**

The Committee shall:

(i) **establish and periodically review implementation of procedures for:**

(a) the receipt, retention and anonymous treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and

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2 This function is reported by the Environment, Health and Safety Committee.
(b) the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;

(ii) review and approve the Corporation’s hiring policies regarding partners, employees and former partners and employees of the present and former External Auditor;

(iii) review expenses of the Board Chair and CEO;

(iv) review and approve all related party transactions;

(v) review the effect of regulatory and accounting initiatives, as well as off balance sheet structures, on the financial statements of the Company;

(vi) review the succession plan for the Corporation’s financial and accounting management;

(vii) conduct a self-assessment annually and discuss the results with the Board; and

(viii) review and update its terms of reference at least annually.

(IV) ACCOUNTABILITY

A. The Committee Chair has the responsibility to make periodic reports to the Board, as requested, on financial matters relative to the Corporation.

B. The Committee shall report its discussions and activities to the Board by maintaining minutes of its meetings and providing an oral report at each regular Board meeting.